

Tutorial Letter 101/3/2018

The Internal Audit Process: Planning the engagement

AUI3701

Semester 1 and 2

Department of Auditing

IMPORTANT INFORMATION

Please register on myUnisa, activate your myLife e-mail address and make sure that you have regular access to the myUnisa module website, as well as your group website.

Note: This is a blended module and therefore it is available on myUnisa. However, in order to support you in your learning process, you will also receive some study material in printed format.

BARCODE

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1 INTRODUCTION

Dear Student

It gives us great pleasure to welcome you as an AUI3701 student to the Department of Auditing. As your lecturers, we are here to support you in your studies. You are welcome to contact us at any time should you need any support and advice during this study programme.

This is a blended module, therefore you will receive your study material in print and online. To access the online version, you have to use myUnisa. You need to visit the websites for AUI3701 on myUnisa frequently. The website for your module is AUI3701-18-S1/S2. All the learning material is available on myUnisa with useful links to assist you in mastering a perceived difficult subject like internal auditing. In this module you will be guided through the content by working through the learning units either on myUnisa or the printed version.

We hope that you will have a very enjoyable and successful year of study.

1.1 To get started on myUnisa

Because the study material is available online you must be registered on myUnisa to be able to access study material, submit your assignments, gain access to the Library functions and various learning resources, to “chat” to your lecturer and fellow students about your studies and the challenges that you might encounter, and to participate in online discussion forums, blogs or self-assessments. Go to the website here: <https://my.unisa.ac.za> and login with your student number and password. You will see AUI3701-18-S1/S2 in the row of modules in the orange blocks across the top of the webpage. Remember to also check in the -more- tab if you cannot find this module in the orange blocks. Then click on the module you want to open.

Based on a Unisa decision, for this module you will only receive a printed study guide and Tutorial Letter 101 (this tutorial letter). The other tutorial letters of less than 20 pages are not printed and are electronically available on myUnisa.

In addition to registering on myUnisa, it is crucial that you activate your myLife e-mail address, as all your official correspondence regarding this module will be sent to your myLife address and not your private e-mail address. Please consult the *Study @ Unisa* publication for more information on the activation of your myLife e-mail address as well as obtaining access to the myUnisa module site.

1.2 How to study this module online

All your study material and learning activities are online, on myUnisa. Printed material will be provided. However, you will benefit from utilising the online platform.

- **Attempt to submit all of your assignments online.** If you submit your assignments online, make sure that you submit them on myUnisa in the required format (**PDF**). (Remember: submitting your assignments online is **faster and safer** than by post.)
- **This means that most of the communication between yourself and the university also happens online** — by e-mail, in the discussion forums and through the **Questions and Answers** tool. The semester period is very short; therefore

communicating with you online is the most effective way to cover all the learning material.

2 PURPOSE AND OUTCOMES FOR THE MODULE

2.1 Purpose

For this module, there are several outcomes that we hope you will be able to accomplish by the end of the course:

2.2 Outcomes

- **Specific outcome 1:** Adhere to the International Professional Practices Framework (IPPF) of Internal Auditing when planning the internal audit.
- **Specific outcome 2:** Consider the significant factors affecting the planning of an internal audit.
- **Specific outcome 3:** Conduct a preliminary survey of the area to be audited, according to the Standards and generally acceptable practice.
- **Specific outcome 4:** Communicate effectively during the planning activity and obtain approval for the audit plan.

3 LECTURERS AND CONTACT DETAILS

3.1 Lecturers' information

Module responsible lecturer

Ms D Sebastian +27 429 4074

E-mail: sebasd@unisa.ac.za

Course co-ordinator:

Mrs BM van Wyk +27 12 429 4712

E-mail: vwykbm@unisa.ac.za

Please do not hesitate to contact the lecturer(s) by e-mail, telephonically or personally (by prior arranged appointment only), should you experience specific problems regarding the **content of the module**. Please have your study material open online when you contact us. Please note that enquiries with regard to matters not relating to the **content of the module** (e.g. myUnisa or myLife access, enquiries in respect of examination dates, examination venues, etc) must **not be directed to your lecturer** but should be directed to the relevant department. The contact details are available in the *Study @ Unisa* brochure (www.unisa.ac.za).

3.2 Department

Department of Auditing:

If you wish to write to us, you should address your letters to:

The Module Leader: **AUI3701**
 Department of Auditing
 PO Box 392
 Unisa
 0003

Secretary:
 Tel: +2712 429 4707

Departmental webpage:
<http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=194>

3.3 College

College related undergraduate enquiries should be directed to: +2712 429 4211 or Casenquiries-undergraduate@unisa.ac.za

3.4 University

If you need to contact Unisa about matters **not related to the content** of this module, please consult the brochure *Study @ Unisa*, which you should have received with your study material. In this document you will find the contact details of various administrative departments. If you did not receive this document and you have access to the internet, you can find it on myUnisa under the 'Resources' option. Remember to always have your student number ready when making an enquiry.

Please ensure that you contact the correct section or department for each enquiry as this will result in a speedy resolution of the enquiry.

The contact details are:

E-mail addresses:



- info@unisa.ac.za for general enquiries
- study-info@unisa.ac.za for a pplication and registration-related enquiries (prospective and registered students)
- international@unisa.ac.za for international students (registration-related enquiries)
- assign@unisa.ac.za for assignment enquiries
- exams@unisa.ac.za for examination enquiries
- despatch@unisa.ac.za for study material enquiries
- finan@unisa.ac.za for student account enquiries
- gaudeamus@unisa.ac.za for graduation enquiries
- myUnisaHelp@unisa.ac.za for assistance with myUnisa
- myLifeHelp@unisa.ac.za for assistance with myLife e-mail accounts
- aegrotats@unisa.ac.za for aegrotat exams
- remark@unisa.ac.za for remarking of papers
- recheck@unisa.ac.za for rechecking of papers
- condiscipuli@unisa.ac.za for fellow student names

- counselling@unisa.ac.za for student counselling and career development
- vospresc@unisa.ac.za for enquiries about prescribed books

Library

The *Study @ Unisa* booklet, which is part of your registration package, lists all the services offered by the Unisa library.

General library catalogue enquiries	bib-oasis@unisa.ac.za
Library web co-coordinator	bib-web@unisa.ac.za
Inter-library loans enquiries	libr-ill@unisa.ac.za
Enquiries about subject databases	bib-dbase@unisa.ac.za
Library information desk	bib-help@unisa.ac.za
Enquiries about training presented by the Library	bib-oplei@unisa.ac.za
Send a question to the Library staff	bibrefq@unisa.ac.za

SMS numbers:



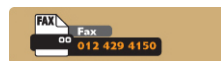
Send an SMS to 3 2695 for more information on how to contact Unisa via SMS (only for students within the borders of South Africa). Students will receive an auto-response SMS with the various SMS options. Standard SMS rates apply.

Students can also SMS enquiries directly to:

- 43578 for applications and registrations*
- 43584 for assignments*
- 43584 for examinations*
- 43579 for study material*
- 31954 for student accounts*
- 43582 for myUnisa and myLife*

* The SMS number is only for students residing in South Africa. International students are urged to make use of the e-mail address info@unisa.ac.za.

Fax number:



Fax enquiries to +2712 429 4150

Online address <http://my.unisa.ac.za>
 Unisa website <http://www.unisa.ac.za>

Other means of contacting the University are:

Physical address

University of South Africa
 Preller Street
 Muckleneuk
 Pretoria
 City of Tshwane

Postal address

University of South Africa
 PO Box 392
 Unisa
 0003

NB: Lecturers cannot assist you with registration, payments, module codes, examinations, etc. These are administrative issues, which should be discussed with the relevant sections.

4 RESOURCES

4.1 Prescribed books

Your prescribed textbooks for this course for this semester are:

- Kurt F Reding. 2013. Internal Auditing: Assurance & Advisory Services Year Published. 3rd Edition. IIA Research Foundation.
- Jackson RDC & Stent WJ. 2016. Auditing notes for South African students. 10th or later edition. Durban: LexisNexis.

Please consult the list of official booksellers and their addresses listed in *Study @ Unisa*.

4.2 Other resources – printed support material

Because we want you to be successful in this blended module, we also provide you with some of the study material in printed format. This will allow you to read the study materials, even if you are not online.

The printed study material will be sent to you at the beginning of the semester, but you do not have to wait to receive it to start studying – you can go online as soon as you register and all your study material will be there. Therefore, the printed material is not something that you need to wait for before you start with the module. It is only an **offline** copy of the formal content of the blended module.

Having the study material in printed form will give you the chance to do a lot of the studying for this module WITHOUT having to go into the internet or to an internet cafe. This will save you money, of course, and you will be able to take as much time as you need to read – and to re-read – the materials and do the activities.

It is therefore very important that you log into myUnisa regularly. We recommend that you should do this at least every week:

- **Check for new Announcements.** You can also set up your myLife email so that you receive the Announcement emails on your cell phone.
- **Do the Discussion forum activities.** For every unit in this module, we want you to share with the other people in your group in the activities. You can read the instructions here and even prepare your answers but you need to go online to post your messages.

We hope that this system will help you to succeed in this blended module by giving you extra ways to study the material and practice doing all the activities and assignments. At the same time, you **MUST** go online in order to complete the activities and assignments on time - and to get the most from the online course.

4.3 Library services and resources information

For brief information go to: <http://www.unisa.ac.za/static/myunisa/Content/documents/study-at-Unisa2017-brochure.pdf>

For more detailed information, go to the Unisa website: <http://www.unisa.ac.za/>, and click on Library.

For research support and services of personal librarians, go to: <http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=7102>.

The Library has compiled numerous library guides:

- Find recommended reading in the print collection and e-reserves - <http://libguides.unisa.ac.za/request/undergrad>.
- Request material - <http://libguides.unisa.ac.za/request/request>.
- Postgraduate information services - <http://libguides.unisa.ac.za/request/postgrad>.
- Finding, obtaining and using library resources and tools to assist in doing research - http://libguides.unisa.ac.za/Research_Skills.
- How to contact the Library/find us on social media/frequently asked questions - <http://libguides.unisa.ac.za/ask>.

5 STUDENT SUPPORT SERVICES

For student support services, you are referred to the *Study @ Unisa* brochure. Please also visit myUnisa for announcements and additional information resources.

Telecentres

Free computer and internet access

Unisa has entered into partnerships with establishments (referred to as telecentres) in various locations across South Africa to enable you (as a Unisa student) free access to computers and the internet. This access enables you to engage in e-tutoring activities and signature courses, etc. Please note that any other activity outside of those listed are for your own cost e.g. printing, photocopying, etc. For more information on the telecentre nearest to you, please visit www.unisa.ac.za/telecentres.

6 STUDY PLAN

You are responsible for pacing yourself; that means that you should spread your studies evenly throughout the semester.

Also use the *Study @ Unisa* brochure for general time management and planning.

7 PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There is no practical work for this module.

8 ASSESSMENT

8.1 Assessment plan

Assignments and learning

Assignments assess your progress and learning and must be submitted before the due dates. As you do the assignments, study the reading texts, consult other resources, and discuss the work with fellow students or tutors, you are actively engaged in learning. Here is a breakdown of the assignments, as they occur in the semester.

Compulsory assignment

You are required to **submit Assignment 01 and Assignment 02 before the due date.** Admission will be obtained by submitting Assignment 01 or Assignment 02 and not based on the marks you obtain for it. **No admission will be considered if you did not submit Assignment 01 before the due date.**

The **marks you obtained** for Assignment 01 and Assignment 02 will contribute towards your year mark.

General remarks

- (a) Assignment 01 is included in this tutorial letter, but is also available on myUnisa.
- (b) The assignments must be submitted on or before the due date to obtain admission to the examination. Make sure that it is marked as "01" or "02".
- (c) It is in your own interest to **retain a copy of proof that the assignment (number 01 and/or 02) was submitted** so that you can produce this in the event that there should afterwards be any dispute concerning whether or not the assignment was received.
- (d) A **year mark** of 20% will contribute to your final mark. . This year mark will be calculated as an average of the marks obtained for **Assignment 01 and Assignment 02** (if you obtain at least 40% in the examination).

The final mark is calculated as follows:

10% x mark obtained for Assignment 01, plus

10% x mark obtained for Assignment 02 plus

80% x mark obtained in the examination (sub-minimum of 40%)

The sub-minimum of 40% implies that if you obtain a mark of less than 40% in the examination, your year mark will not be taken into account.

IMPORTANT:

TO GET ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT ASSIGNMENT 01 BEFORE OR ON THE DUE DATE.

YOUR MARKS FOR BOTH ASSIGNMENTS 01 AND 02, WILL BE USED TO DETERMINE YOUR YEAR MARK.

Plagiarism

Plagiarism is the act of taking words, ideas and thoughts of others and passing them off as your own. It is a form of theft, which involves a number of dishonest academic activities.

my Studies @ Unisa Disciplinary Codes (2011) is given to all students at registration. Students are advised to study the Code, especially Chapter 3: 1.18 and 1.19. Also please read the University's Copyright Infringement and Plagiarism Policy.

All your assignments must be your own work. You will receive 0% for your whole assignment if it's deemed that plagiarism was committed in any part of the assignment and you may also be subject to disciplinary proceedings by the University.

Everyone must obtain the required skills to ensure that you will be able to make a valuable contribution in the workplace.

PLEASE NOTE: Enquiries about assignments must be addressed to assign@unisa.ac.za.

Commentaries and feedback on assignments

The solution to Assignment 01 will be provided to you in Tutorial Letter 201 that will only be distributed after the due date of Assignment 01. Tutorial Letter 202 that will only be distributed after the due date of assignment 02.

As soon as you have received the solutions and comments, **please check your answers**. The assignments and the comments on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination.

8.2 Assignment numbering

General assignment numbers

Assignments are numbered consecutively per module, starting from 01.

Unique assignment numbers

In addition to the general assignment number (such as 01), each assignment has its **own unique assignment number** (such as 102717). This number must be written on the mark-reading sheet or assignment cover page in the designated area.

8.3 Due dates for assignments

Refer to the following table for the unique assignment numbers and due dates applicable to the assignments that you have to submit:

Assignment	FIRST SEMESTER Due date if you are registered for the first semester	SECOND SEMESTER Due date if you are registered for the second semester
Assignment 01 (10 % of year mark) (Compulsory)	9 March 2018 Unique assignment number: 815597 Multiple-choice questions	24 August 2018 Unique assignment number: 704118 Multiple-choice questions
Assignment 02 (10 % of year mark)	6 April 2018 Unique assignment number: 716126 Written assessment	14 September 2018 Unique assignment number: 807320 Written assessment

8.4 Submission of assignments

You may submit written assignments and assignments done on mark-reading sheets either by post or electronically via myUnisa. We strongly **recommend** that students **submit the assignments electronically via myUnisa** (in **PDF**) instead of posting them. All the activities must be submitted as a single assignment with the unique codes as stipulated in section 6.3 of this tutorial letter. PDF file should **NOT** be submitted as "Read only".

To submit assignments using myUnisa:

- Go to <http://my.unisa.ac.za>.
- Enter your student number and password.
- Select the module from the orange bar.
- Click on assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

Please ensure that your assignment 01 reaches the University **before the due date – late submission of assignment 01 will result in you not being admitted to the examination.**

Assignments posted should be addressed to: (**only** if you are **unable** to submit it electronically)

- The Registrar
- PO Box 392
- Unisa

- 0003

Important: By submitting your assignment, you confirm that you accept and will adhere to the terms of the plagiarism declaration included in paragraphs 8.5.2 (Semester 1) and 8.5.4 (Semester 2) respectively. Please note:

- If you are found to be in violation of the plagiarism declaration, you will receive 0% for the assignment.
- If you copied **all or a portion** of your assignment from someone else, both you and the person you copied from will receive 0% for the assignment.
- If you worked together in a study group, remember that you still have to submit your **own work**, written in your **own words**. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration and you will receive 0% for the assignment.
- The **plagiarism declaration** holds you accountable for completing your assignment on your own.

8.5 Assignments

8.5.1 Semester 1: Compulsory Assignment 01

Instructions:

- (1) Write the correct unique assignment number in the six blocks provided on the mark-reading sheet.
- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark-reading sheet.
- (3) Consult *Study @ Unisa* for an example of how a computer mark-reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult *Study @ Unisa* when you answer multiple-choice assignments.

Special instructions for answering Assignment 01

- (1) This assignment consists of 20 multiple-choice questions.
- (2) This assignment covers topics 1–7 of the study guide.
- (3) If you honestly attempted the assignment **after** first studying the prescribed study material, you will reap the benefits. If you copied the solution with the aim to obtain a high year mark, do not be surprised if you fail the examination despite an excellent year mark.

**ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS
(Compulsory)**

**1st SEMESTER
Unique Number: 815597
Date Of Submission: 9 March 2018**

PLAGIARISM DECLARATION:

By submitting AUI3701 assignment number 2, I declare that:

- I have read the Unisa Students' Disciplinary Code;
- I know what plagiarism is, that plagiarism is wrong and that disciplinary steps can be taken against me if I am found guilty of plagiarism;
- This assignment, submitted by myself, is my own work and that I have referenced all the sources that I have used;
- I have not allowed any other student to copy my work;
- I know that if I am found to be in violation of this declaration I will receive 0% for the assignment involved.

Please note: You do not have to submit the declaration. By submitting any assignment for AUI3701, you automatically declare that you adhere to all the above with regard to the specific assignment.

QUESTION 1

20 marks

REQUIRED

Answer questions 1 to 20 by selecting the **one** alternative that you consider to be the most correct answer to the relevant question. Mark the corresponding digit on myUnisa or on the mark-reading sheet. Answer the subsections of the questions in number sequence, for example:

1. 1
2. 3

(1 mark per question)

- 1.1 An organisation provides selected employees with credit cards for business use. The credit card company, in turn, provides the organisation with a computer file of all transactions made by the employees. An auditor plans to use generalised audit software (GAS) to select some of these transactions for testing. Which of the following would **not** be readily identified using GAS?

- 1 Transactions for specific cardholders.
- 2 High-monetary value transactions.
- 3 Fraudulent transactions.
- 4 Suppliers used by each cardholder.

1.2 Which one of the following statements is an appropriate internal audit objective?

- 1 To observe the physical inventory count.
- 2 To determine whether inventory on hand is sufficient to meet the projected sales targets.
- 3 To search for the existence of obsolete inventory by computing inventory turnover by product line.
- 4 To examine a sample of purchase orders and their corresponding purchase requisition for proper approval signatures.

1.3 Enterprise risk management ...

- 1 involves the identification of events with negative impacts on organisational objectives.
- 2 includes the selection of the best risk responses for the organisation.
- 3 guarantees the achievement of organisational objectives.
- 4 requires internal auditors to establish risk and control activities.

1.4 Which one of the following would constitute a **violation** of the Institute of Internal Auditors' Code of Ethics?

- 1 Janice was recently appointed to the internal audit department of Elco Limited. She was given an assignment to audit the electronics manufacturing division of Elco Limited. Previously she was employed as a senior auditor for the external audit firm responsible for performing the external audit of that division and she has audited many electronics companies during the past two years.
- 2 Jabulele has been assigned to do an audit of the warehousing function six months from now. He has no expertise in that area but accepted the assignment anyway. He has signed up for continuing professional education courses in warehousing which will be completed before his assignment begins.
- 3 Mpho is content with his career as an internal auditor and has come to look at it as a regular 8 to 5 job. He has not engaged in continuing professional education or other activities to improve his effectiveness during the last three years. However, he feels he is producing the same quality of work as he has always done.
- 4 John discovered an internal financial fraud during the year. The accounting books were adjusted to properly reflect the loss associated with the fraud. John discussed the fraud with the external auditors when the external auditor reviewed working papers detailing the incident.

- 1.5 Engagement information is usually considered relevant when it is ...
- 1 consistent with the engagement objectives.
 - 2 factual, adequate and convincing.
 - 3 derived through valid statistical sampling.
 - 4 objective and unbiased.
- 1.6 Which group is charged with overseeing the establishment, administration and evaluation of the process of risk management and control?
- 1 Operating managers.
 - 2 Internal auditors.
 - 3 External auditors.
 - 4 Senior management.
- 1.7 The risk of a fuel tanker exploding while transporting fuel to filling stations will most likely be regarded as ...
- 1 an audit risk associated with fuel transportation.
 - 2 a risk that will not be covered by any insurance policy.
 - 3 an inherent risk associated with fuel transportation.
 - 4 a control risk associated with fuel transportation.
- 1.8 If there is fraud in a department, which of the following would be beyond the scope of the internal auditor's responsibility?
- 1 Informing the wrongdoer of his/her legal rights.
 - 2 Determining the effects of the wrongdoing.
 - 3 Discussing the wrongdoing with an appropriate level of management.
 - 4 Including the wrongdoing in a report that will go to the audit committee.
- 1.9 Which of the following best describes the purpose of the internal audit activity?
- 1 To add value and improve an organisation's operations.
 - 2 To assist management with the design and implementation of risk management and control systems.
 - 3 To examine and evaluate the organisation's accounting system as a service to management.
 - 4 To monitor the organisation's internal control system for the external auditor.
- 1.10 During an engagement to evaluate the organisation's account payable function, an internal auditor plans to confirm balance with suppliers. What is the source of authority for such contact outside the organisation?

- 1 Internal audit activity policies and procedures.
 - 2 The standards.
 - 3 The code of ethics.
 - 4 The internal audit activity's charter.
- 1.11 Documentation required to plan an internal audit engagement include information that...
- 1 resources needed to complete the engagement were considered.
 - 2 planned engagement work will be completed on time.
 - 3 intended engagement observations have been clearly identified.
 - 4 internal audit activity resources are efficiently and effectively employed.
- 1.12 Internal auditors must develop and document a plan for each engagement. The planning process should include all of the following except ...
- 1 establishing engagement objectives and scope of work.
 - 2 obtaining background information about the activities to be reviewed.
 - 3 identifying sufficient information to achieve engagement objectives.
 - 4 determining how, when, and to whom the engagement results will be communicated.
- 1.13 Francina is the new internal auditor for Babelino (Pty) Ltd. Francina was in charge of payroll for Babelino (Pty) Ltd just 10 months ago. Performing which services with regard to payroll is considered an impairment of independence or objectivity if performed by Francina?
- 1 Consulting services.
 - 2 Assurance services.
 - 3 Assurance or consulting services.
 - 4 Neither assurance nor consulting services.
- 1.14 The chief executive officer wants to know whether the purchasing function is properly meeting its charge to "purchase the right materials at the right time in the right quantities." Which of the following types of engagements addresses this request?
- 1 A financial engagement relating to the purchasing department.
 - 2 An operational engagement relating to the purchasing function.
 - 3 A compliance engagement relating to the purchasing function.
 - 4 A full-scope engagement relating to the manufacturing operation.
- 1.15 The internal auditor is considering making a risk analysis as a basis for determining the areas of the organisation where engagements should be performed. Which one of the following statements is true regarding risk analysis?

- 1 The extent to which management judgments are required in an area could serve as a risk factor in assisting the internal auditor in making a comparative risk analysis.
- 2 The highest risk assessment should always be assigned to the area with the largest potential loss.
- 3 The highest risk assessment should always be assigned to the area with the highest probability of occurrence.
- 4 Risk analysis must be reduced to quantitative terms in order to provide meaningful comparisons across an organisation.

1.16 Internal auditors can evaluate the management function of controlling by determining if...

- 1 the grouping of activities in a department meets departmental objectives.
- 2 management is provided with prompt feedback on performance variances.
- 3 employee turnover rates are analyzed for trends and investigations are made for adverse trends.
- 4 anticipated problems are discussed, identified and evaluated with possible solutions provided.

1.17 Which of the following is **not** a role of the internal audit activity in best practice governance activities?

- 1 Support the board in enterprise-wide risk assessment.
- 2 Ensure the timely implementation of audit recommendations.
- 3 Monitor compliance with the corporate code of conduct.
- 4 Discuss areas of significant risks.

1.18 Controls should be designed to ensure that ...

- 1 operations are performed efficiently.
- 2 management's plans have not been circumvented by worker collusion.
- 3 the internal audit activity's guidance and oversight of management's performance is accomplished economically and efficiently.
- 4 management's planning, organising and directing processes are properly evaluated.

1.19 The requirement that purchases be made from suppliers on an approved vendor list is an example of a ...

- 1 preventive control.
- 2 detective control.
- 3 corrective control.
- 4 monitoring control.

1.20 While planning an assurance engagement, the internal auditor obtains knowledge about the auditee's operations to, among other things ...

- 1 develop an attitude of professional scepticism concerning management's objectives.

- 2 make constructive suggestions to management regarding internal control improvements.
- 3 evaluate whether misstatements in the auditee's performance reports should be communicated to senior management and the audit committee.
- 4 develop an understanding of the auditee's objectives, risks and controls.

---X---

8.5.2 Semester 1: Assignment 02

Instructions

- (1) Consult *Study @ Unisa* for instructions on how to submit written assignments.

Special instructions for answering this assignment

- (1) This assignment covers the whole syllabus.
- (2) All questions must be answered.
- (3) **Only selected questions will be marked.**
- (4) Where discussion is required, structure your answer in **point format**, limiting each paragraph to one statement.
- (5) You are reminded that your assignments must be your own work.

By submitting your assignments, you confirm that you accept and will adhere to the terms of the **plagiarism declaration**. Please note:

- If you are found to be in violation of the declaration, you will receive 0% for Assignment 02.
- If you copied **all or a portion** of your assignment from someone else (including tutors, online study group, etc.), both you and the person(s) you copied from will receive 0%. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration.

This declaration holds you accountable for completing your assignment **on your own**.

PLAGIARISM DECLARATION:

By submitting AUI3701 assignment 02, I declare that:

- I have read the Unisa Students' Disciplinary Code;
- I know what plagiarism is, that plagiarism is wrong and that disciplinary steps can be taken against me if I am found guilty of plagiarism;
- This assignment, submitted by myself, is my own work and that I have referenced all the sources that I have used;
- I have not allowed any other student to copy my work;
- I know that if I am found to be in violation of this declaration I will receive 0% for the assignment involved.

Please note: You do not have to submit the declaration. By submitting any AUI3701 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

ASSIGNMENT 02: WRITTEN ASSIGNMENT

1st SEMESTER

Unique Number: 716126

Date Of Submission: 6 April 2018

QUESTION 1**12 marks****REQUIRED**

Answer questions 1 to 12 by selecting the **one** alternative that you consider to be the most correct answer to the relevant question. Write the correct answer on your assignment paper as illustrated below. Answer the subsections of the questions in number sequence, for example:

1. 1
2. 3

(1 marks per question)

1.1 Analytical procedures can be best categorised as ...

- 1 substantive tests.
- 2 tests of controls.
- 3 budget comparisons.

- 4 qualitative tests.
- 1.2 An internal auditor decides to perform an inventory turnover analysis for both raw materials and finished goods inventory. The analysis would be potentially useful in ...
- 1 identifying products for which management has not adjusted to changes in market demand.
 - 2 identifying obsolete inventory.
 - 3 identifying potential problems in purchasing activities.
 - 4 All the answers are correct.
- 1.3 A well-designed internal control questionnaire should ...
- 1 be a sufficient source of data for assessing control risk.
 - 2 be independent of the objectives of the internal auditing engagement.
 - 3 elicit "yes" or "no" responses rather than narrative responses and be organised by department.
 - 4 help evaluate the effectiveness of internal control.
- 1.4 Which of the following statements describes an internal control questionnaire?
It ...
- 1 provides detailed evidence regarding the substance of the control system.
 - 2 **provides indirect audit evidence that might need corroboration.**
 - 3 requires that the auditor be in attendance to properly administer it.
 - 4 takes less of the auditee's time to complete than other control evaluation devices.
- 1.5 An internal auditor's preliminary analysis of accounts receivable turnover revealed the following rates:
- Year 1: 7.3
Year 2: 6.0
Year 3: 4.5
- Which of the following is the most likely cause of the decrease in accounts receivables turnover?
- 1 Increase in the cash discount offered.
 - 2 Shortening of due dates terms.
 - 3 Increased cash sales.
 - 4 Liberalisation of credit policy.
- 1.6 Analytical procedures in which current financial statements are compared with budgets or previous statements are primarily intended to determine the ...

- 1 overall reasonableness of statement contents.
 - 2 use of erroneous cut-off dates.
 - 3 existence of financial statement disclosure.
 - 4 existence of specific errors of omissions.
- 1.7 You have to plan an audit on wages at the organisation where you work, so you page through the working papers of the previous wages audit. Which one of the following **does not** represents an appropriate internal audit objective that is likely to be found in the working papers?
- 1 To observe the procedures followed during a creditors pay-out.
 - 2 To follow any unclaimed wages subsequent to the wage payment through to an entry in the register for unclaimed wages.
 - 3 To determine whether wages are paid out to legitimate employees of the organisation for work actually performed.
 - 4 To confirm the identity of a selection of staff members receiving their wages and ensuring that they sign for receipt.
- 1.8 Analytical procedures ...
- 1 are considered direct information about the assertion being evaluated.
 - 2 involve such tests as confirmation of receivables.
 - 3 may provide the best available information for the completeness assertion.
 - 4 are never sufficient by themselves to support management assertions.
- 1.9 Control by management is the result of ...
- 1 planning, organizing, and directing of organisational activities.
 - 2 ascertaining needs, identifying alternatives courses of action, setting standards for measuring performance, and comparing outcomes with predetermined standards.
 - 3 authorizing and monitoring performance, and comparing actual performance with planned performance.
 - 4 determining efficiency and economy of operations, including whether objectives have been met.
- 1.10 The purpose of internal audit activity's evaluation of the effectiveness of existing risk management process is to determine that ...
- 1 management has planned and designed so as to provide reasonable assurance of achieving objectives.
 - 2 management directs processes so as to provide reasonable assurance of achieving objectives.
 - 3 the organisation's objectives will be achieved efficiently and economically.
 - 4 the organisation's objectives will be achieved in an accurate and timely manner and with minimal use of resources.

1.11 An assurance engagement in the quality control department is being planned. Which of the following is least likely to be used in the preparation of a preliminary survey questionnaire?

- 1 The permanent engagement file.
- 2 An analysis of quality control documents.
- 3 The prior engagement communications.
- 4 Management's charter for the quality control department.

1.12 The scope of an internal auditing engagement is initially defined by the ...

- 1 engagement objectives.
- 2 scheduling and time estimates.
- 3 preliminary survey.
- 4 engagement work program.

QUESTION 2

30 marks

PART A

Brightlights (Pty) Ltd, a medium sized retailer of light fittings, have implemented the following control activities, among others, to address risks that they face in the various business cycles:

- 1 To gain access to the warehouse, warehouse employees must place their thumb on a biometric reader. If the thumbprint is authorised, the turnstile is activated.
2. To effect monthly payments to creditors by electronic funds transfer, both the financial accountant and the financial director must enter their unique passwords before the payment will be "released".
- 3 Comprehensive enquiries relating to a proposed (new) customer's creditworthiness are carried out by the credit manager.
- 4 Inventory cycle counts are conducted on different sections of the warehouse at the end of every month.
- 5 Adjustments to the inventory masterfile arising from differences in quantities identified by the cycle count must be
 - a entered on properly designed, preprinted sequenced masterfile amendment forms, by the warehouse controller and
 - b. signed by the financial accountant after scrutiny of the supporting documentation.
- 6 At the end of each working week, a clerk in the accounting department sequence tests the dispatch notes and matches each dispatch note with a sales invoice.
- 7 When a credit note is made out for a customer, it must be cross-referenced to the original sales invoice and presented to the financial accountant with the signed goods returned note, original sales invoice and any customer documentation.

(Adapted from Graded Questions on Auditing)

REQUIRED

Marks

- 2.1 Discuss the risk(s) that each of the internal controls implemented by (12)
22

management and listed above are intended to address.

- 2.2 List potential sources of information that process owners have available that will help the internal auditor understand the process being audited? (6)

PART B

You are an internal audit manager at Brightlights (Pty) Ltd. Your audit team consists of two senior auditors (Thabo and Ursula) as well as two trainees (Anton and Piet) who have just joined your internal audit department after leaving university.

Anton and Piet are assisting you in the preliminary investigation for a human resources audit and you have had several complaints from the staff of that department. The following complaints have been reported to you:

- 1 They (Anton and Piet) keep asking about things that they should be aware of.
- 2 Piet has a tendency to go to relevant human resources staff members, expecting to interview them without having made prior arrangements.
- 3 The trainees seem to forget what they have asked in the previous interview and keep phoning the client to repeat points that they have already discussed.
- 4 Anton had a meeting with the client and insisted that they continue with the meeting, even though they had exceeded the time scheduled for the meeting and had used up some of the client's lunch break.

As a result of all these complaints, you realise that you will have to train your staff in acceptable interviewing conduct

Proper interviewing comprises under the following stages:

- scheduling the interview
- preparing for the interview
- conducting the interview
- closing the interview
- recording the interview

REQUIRED

Marks

- 2.3 For each of the above complaints, indicate which stage of proper interviewing was contravened and how these shortcomings can be corrected. Your answer must be done in the following format. (12)

No.	Stage contravened	Guidelines for correcting the shortcomings

QUESTION 3

12 marks

As an internal audit student you are aware that the International Professional Practice Framework for Internal Auditors consists of three components (the definition of internal auditing; the Code of Ethics; and the International Standards for the Professional Practice of Internal Auditing).

REQUIRED

Marks

Consider the independent scenarios that follow below. For each of the scenarios, indicate and name the components and/or rules of conduct that have been violated. Support your answer by explaining the violation and indicating the requirements that should have been met.

Structure your answer as follows:

Permissible or not (1mark)	Reference to Professional practice requirements (2 marks)	Reason (1mark)
e.g. Code - Objectivity or Standard 1000 - Purpose, Authority & Responsibility		

3.1 Peter Brown is a newly appointed internal auditor at Arthur and Sons Accountants and Auditors. During the preliminary review for an audit at one of the company's key clients, Peter discovers a fraudulent transaction that implicates the Chief Executive Officer (CEO) of the company. He raises the matter with the audit manager for direction. Excited about his discovery, Peter informs family and friends about what has transpired and tells them that the CEO may also go to jail. (4)

3.2 Matthew, who is an internal audit manager with a company, is planning an audit of the debtors section. Matthew has been involved with the client for five years and has established a good relationship with the key personnel. During an interview, the Chief Financial Officer (CFO) informs George that he has been instructed to manipulate the debtors figure for the interim financial reports in an effort to improve the company's performance. Matthew does not report the matter, because he has been promised a performance bonus of R10 000. (4)

3.3 The external auditors complain that Mrs Schutte, who has recently been appointed as the Chief Audit Executive (CAE), does not want to share information with them regarding the audits performed by the internal audit activity during the recent year. (4)

QUESTION 4**16 marks**

A computer environment has a unique "language". To be able to audit in such an environment, the auditor must have an understanding of that language. The following terms are frequently used and must be clearly understood.

- 4.1 Hardware
- 4.2 Application software
- 4.3 Back-up
- 4.4 Control totals
- 4.5 Masterfile
- 4.6 Database
- 4.7 Limit check
- 4.8 CAAT's

REQUIRED

In your own words, briefly explain each of the terms listed above. (2 marks each)

QUESTION 5**30 marks**

Mr Dede, the chief audit executive of R&R Buildings Limited, appointed you and a friend as internal audit trainees. When Mr Dede enquired about your internal audit experience, you informed him that neither of you have internal audit experience and that you are both currently studying towards a degree in Internal Auditing at UNISA.

Mr Dede decided to test your knowledge with regard to the internal audit process before the commencement of the first audit and asked you a couple of questions.

REQUIRED**Marks**

Answer the following questions:

- 5.1 What is expected of the internal auditor with regard to the following steps in the internal audit process according to the Standards?
 - 5.1.1 Nature of work in terms of risk management and control. (4)
 - 5.1.2 The aspects to be considered in terms of engagement planning. (4)
 - 5.1.3 The documenting information in performing the engagement. (4)
- 5.2 Discuss how the internal auditor should determine the scope of an audit engagement. (9)
- 5.3 Describe the steps that should be followed during a preliminary survey. (9)

---X---

8.5.3 Semester 2: Compulsory Assignment 01

Instructions

- (1) Write the correct unique assignment number in the six blocks provided on the mark-reading sheet.
- (2) Write the ordinary assignment number (01) in the two blocks provided on the mark-reading sheet.
- (3) Consult *Study @ Unisa* for an example of how a computer mark-reading sheet should be filled in.
- (4) If you do not follow these instructions, the computer will reject your answer sheet and it will be returned to you unmarked. Also consult *Study @ Unisa* when you answer multiple-choice assignments.

Special instructions for answering Assignment 01

- (1) This assignment consists of 20 multiple-choice questions.
- (2) This assignment covers the topics 1–7 of the study guide.
- (3) If you honestly attempted the assignment **after** first studying the prescribed study material, you will reap the benefits. If you copied the solution with the aim to obtain a high year mark, do not be surprised if you fail the examination despite an excellent year mark.

PLAGIARISM DECLARATION:

By submitting AUI3701 assignment 02, I declare that:

- I have read the Unisa Students' Disciplinary Code;
- I know what plagiarism is, that plagiarism is wrong and that disciplinary steps can be taken against me if I am found guilty of plagiarism;
- This assignment, submitted by myself, is my own work and that I have referenced all the sources that I have used;
- I have not allowed any other student to copy my work;
- I know that if I am found to be in violation of this declaration I will receive 0% for the assignment involved.

Please note: You do not have to submit the declaration. By submitting any AUI3701 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS

2nd SEMESTER

Unique Number: 704118

Date Of Submission: 24 August 2018

QUESTION 1

20 marks

REQUIRED

Answer questions 1 to 20 by selecting the **one** alternative that you consider to be the most correct answer to the relevant question. Mark the corresponding digit on myUnisa or on the mark-reading sheet. Answer the subsections of the questions in number sequence, for example:

1. 1
2. 3

(1½ marks per question)

- 1.1 In planning an engagement, the internal auditor should establish objectives and procedures to address the risk associated with the activity. Risk is defined as ...
 - 1 the possibility that the balance or class of transactions and related assertions contains misstatements that could be material to the financial statement.
 - 2 the uncertainty of the occurrence of an event that could affect the achievement of objectives.
 - 3 the failure to adhere to organisational policies, plans, and procedures or to comply with relevant laws and regulations.
 - 4 the failure to accomplish established objectives and goals for operations or programs.

- 1.2 Which of the following activities represents the greatest risk to a post-merger manufacturing organisation and is therefore most likely to be the subject of an internal auditing engagement?
 - 1 Combining debtors.
 - 2 Combining purchasing functions.
 - 3 Combining legal functions.
 - 4 Combining marketing functions.

- 1.3 Writing an engagement work program occurs at which stage of the engagement?
 - 1 During the planning stage.
 - 2 Subsequent to evaluating risk management and control systems.
 - 3 As the engagement is performed.
 - 4 At the end of each engagement when the standard work program should be revised for the next engagement to ensure coverage of noted problem areas.

1.4 In planning an assurance engagement, a survey could assist with all of the following, except ...

- 1 obtaining engagement client comments and suggestions on control problems.
- 2 obtaining preliminary information on controls.
- 3 identifying areas for engagement emphasis.
- 4 evaluating the adequacy and effectiveness of controls.

1.5 All of the following are examples of consulting services except:

- 1 Legal counsel engagement.
- 2 System security engagement.
- 3 Advice engagement.
- 4 Facilitation engagement.

1.6 In which of the following situations does the auditor potentially lack objectivity?

- 1 An auditor reviews the procedures for a new electronic data interchange connection to a major customer before it is implemented.
- 2 A former purchasing assistant performs a review of internal controls over purchasing four months after being transferred to the internal auditing department.
- 3 An auditor recommends standards of control and performance measures for a contract with a service organization for the processing of payroll and employee benefits.
- 4 A payroll accounting employee assists an auditor in verifying the physical inventory of small motors.

1.7 In exercising due professional care, an internal auditor should consider which of the following?

- I The relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- II The extent of assurance procedures necessary to ensure that all significant risks will be identified.
- III The probability of significant errors, irregularities, or noncompliance.

- 1 I and II.
- 2 II and III.
- 3 I and III.
- 4 I, II and III.

1.8 Engagement objectives are stated in ...

- I The engagement program
- II Engagement communications
- III The statement of the engagement scope

- 1 I and III only.
- 2 I and II only.
- 3 II and III only.
- 4 I, II and III.

1.9 A determination of cost savings is most likely to be an objective of a(n) ...

- 1 program-results engagement.
- 2 financial engagement.
- 3 compliance engagement.
- 4 operational engagement.

1.10 Which of the following statements about control risk self-assessment (CRSA) is **false**?

- 1 CRSA is usually an informal and undocumented process.
- 2 In its purest form, CRSA integrates business objectives and risks with control processes.
- 3 CRSA is also known as control self-assessment.
- 4 Most implemented CRSA programs share some key features and goals.

1.11 Control risk self-assessment is a process that involves employees in assessing the adequacy of controls and identifying opportunities for improvement within an organisation. Which of the following are reasons to involve employees in this process?

- I Employees become more motivated to do their jobs right.
- II Employees are objective about their jobs.
- III Employees can provide an independent assessment of internal controls.
- IV Managers want feedback from their employees.

- 1 I and II.
- 2 III and IV.
- 3 I and IV.
- 4 II and IV.

1.12 Which of the following actions would be a violation of auditor independence?

- 1 Continuing on an audit assignment at a division for which the auditor will soon be responsible as the result of a promotion.
- 2 Reducing the scope of an audit due to budget restrictions.
- 3 Participating on a task force which recommends standards for control of a new distribution system.
- 4 Reviewing a purchasing agent's contract drafts prior to their execution.

1.13 A chief audit executive may use risk analysis in preparing work schedules. Which of the following is **not** considered in performing a risk analysis?

- 1 Issues relating to organisational governance.

- 2 Skills available on the internal audit staff.
 - 3 Results of prior engagements.
 - 4 Major operating changes.
- 1.14 The purpose of the internal audit activity's evaluation of the effectiveness of existing risk management processes is to determine that ...
- 1 management has planned and designed so as to provide reasonable assurance of achieving objectives.
 - 2 management directs processes so as to provide reasonable assurance of achieving objectives.
 - 3 the organisation's objectives will be achieved efficiently and economically.
 - 4 the organisation's objectives will be achieved in an accurate and timely manner and with minimal use of resources.
- 1.15 Which of the following statements regarding corporate governance is **not** correct?
- 1 Corporate control mechanisms include internal and external mechanisms.
 - 2 The compensation scheme for management is part of the corporate control mechanisms.
 - 3 The dilution of shareholders' wealth resulting from employee stock options or employee stock bonuses is an accounting issue rather than a corporate governance issue.
 - 4 The internal auditor of a company has more responsibility than the board for the company's corporate governance.
- 1.16 In evaluating the effectiveness and efficiency with which resources are employed, an internal auditor is responsible for ...
- 1 determining the extent to which adequate operating criteria have been established.
 - 2 verifying the existence of assets.
 - 3 reviewing the reliability of operating information.
 - 4 verifying the accuracy of asset valuation.
- 1.17 Controls may be classified according to the function they are intended to perform, for example, as detective, preventive or directive. Which of the following is a directive control?
- 1 Monthly bank statement reconciliations.
 - 2 Dual signatures on all disbursements over a specific amount.
 - 3 Recording every transaction on the day it occurs.
 - 4 Requiring all members of the internal audit activity to be Certified Internal Auditors.

- 1.18 Documentation required to plan an internal audit engagement includes information that ...
- 1 resources needed to complete the engagement were considered.
 - 2 planned engagement work will be completed on a timely basis.
 - 3 intended engagement observations have been clearly identified.
 - 4 internal audit activity resources are efficiently and effectively employed.
- 1.19. Which of the following is **least** likely to be placed on the agenda for discussion at a pre-engagement meeting?
- 1 Objectives and scope of the engagement.
 - 2 Client personnel needed.
 - 3 Sampling plan and key criteria.
 - 4 Expected starting and completion dates.
- 1.20 When an auditor performs tests on a computerised inventory file containing over 20 000 line items, that auditor can maintain independence and perform most efficiently by ...
- 1 asking the console operator to print every item that cost more than R2 000.
 - 2 using a generalised audit software package.
 - 3 obtaining a printout of the entire file and then selecting each nth item.
 - 4 using the systems department's programmer to write an extraction program.

---X---

8.5.4 Semester 2: Assignment 02

Instructions

- (1) Consult *Study @ Unisa* for instructions on how to submit written assignments.

Special instructions for answering this assignment

- (1) This assignment covers the whole syllabus.
- (2) All questions must be answered.
- (3) **Only selected questions will be marked.**
- (4) Where discussion is required, structure your answer in **point format**, limiting each paragraph to one statement.
- (5) You are reminded that your assignments must be your own work.

By submitting your assignments, you confirm that you accept and will adhere to the terms of the **plagiarism declaration**. Please note:

- If you are found to be in violation of the declaration, you will receive 0% for Assignment 02.
- If you copied **all or a portion** of your assignment from someone else (including tutors, online study group, etc.), both you and the person(s) you copied from will receive 0%. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration.

This declaration holds you accountable for completing your assignment **on your own**.

PLAGIARISM DECLARATION:

By submitting AUI3701 assignment 02, I declare that:

- I have read the Unisa Students' Disciplinary Code;
- I know what plagiarism is, that plagiarism is wrong and that disciplinary steps can be taken against me if I am found guilty of plagiarism;
- This assignment, submitted by myself, is my own work and that I have referenced all the sources that I have used;
- I have not allowed any other student to copy my work;
- I know that if I am found to be in violation of this declaration I will receive 0% for the assignment involved.

Please note: You do not have to submit the declaration. By submitting any AUI3701 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

ASSIGNMENT 02: WRITTEN ASSIGNMENT

2nd SEMESTER

Unique Number: 807320

Date Of Submission: 14 September 2018

QUESTION 1

20 marks

REQUIRED

Answer questions 1 to 20 by selecting the **one** alternative that you consider to be the most correct answer to the relevant question. Write the correct answer on your assignment paper as illustrated below. Answer the subsections of the questions in number sequence, for example:

1. 1
2. 3

(1 marks per question)

- 1.1 The established scope of the engagement should be sufficient to satisfy the objectives of the engagement. When developing the objectives of the engagement, the internal auditor should consider the ...
 - 1 probability of significant noncompliance.
 - 2 the information included in the engagement work program.
 - 3 the results of engagement procedures.
 - 4 resources required.

- 1.2 The scope of an internal auditing assurance engagement should include consideration of ...
 - 1 only those systems and records under the control of the engagement.
 - 2 relevant physical properties under third-party control.
 - 3 engagement observations, conclusions, and recommendations.
 - 4 final engagement communications.

- 1.3 Which of the following is the major purpose of performing analytical procedures in internal audits?
 - 1 To perform additional audit procedures.
 - 2 To plan the audit engagement.
 - 3 To obtain audit evidence.
 - 4 To study relationships among elements of information.

- 1.4 An internal auditor is auditing the financial operations of an organisation. Which of the following is not specified by the IIA Standards for inclusion in the scope of the audit?
 - 1 Reviewing the reliability and integrity of financial and operational information.
 - 2 Reviewing the compliance with laws, regulations, policies, procedures, and contracts.
 - 3 Appraising the effectiveness and efficiency of operations and programs.
 - 4 Reviewing the financial decision-making process.

- 1.5 Which of the following is the primary advantage of using a preliminary survey questionnaire?
 - 1 It provides a clear picture of the interrelationships that exist between the various controls.
 - 2 It reduces the risk of overlooking important aspects of the system.
 - 3 It forces an auditor to acquire a full understanding of the system.
 - 4 Negative responses indicate the only areas needing further audit work.

1.6 When an internal auditor is interviewing to gain information, the auditor will not be able to remember everything that was said in the interview. The most effective way to record interview information for later use is to:

- 1 Write notes quickly, trying to write down everything in detail, as it is said; then highlight important points after the meeting.
- 2 Tape-record the interview to capture everything that everyone says; then type everything said into a computer for documentation.
- 3 Hire a professional secretary to take notes, allowing complete concentration on the interview; then delete unimportant points after the meeting.
- 4 Organize notes around topics on the interview plan and note responses in the appropriate area, reviewing the notes after the meeting to make additions.

1.7 During a preliminary survey, an auditor notes that several accounts payable vouchers for major suppliers show adjustments for duplicate payment of prior invoices. This would indicate ...

- 1 a need for additional testing to determine related controls and the current exposure to duplicate payments made to suppliers.
- 2 an unrecorded liability for the amount of purchases that are not processed while awaiting supplier master file address maintenance.
- 3 a lack of control in the receiving area that prevents timely notice to the accounts payable area that goods have been received and inspected.
- 4 the existence of a sophisticated accounts payable system that correlates overpayments to open invoices and therefore requires no further audit concern.

1.8 In planning an audit, an on-site survey could assist with all of the following **except** ...

- 1 obtaining auditee comments and suggestions on control problems.
- 2 obtaining preliminary information on internal controls.
- 3 identifying areas for audit emphasis.
- 4 evaluating the effectiveness of the system of internal controls.

1.9 A specific objective of an audit of a company's expenditure cycle is to determine whether all goods paid for have been received and charged to the correct account. This objective addresses which of the following primary objectives identified in the *Standards*?

- I Reliability and integrity of financial and operational information.
- II Compliance with laws, regulations, policies, procedures and contracts.
- III Effectiveness and efficiency of operations and programs.
- IV Safeguarding of assets.

- 1 I and II only.
- 2 I and IV only.
- 3 I, II and IV only.
- 4 II, III and IV only.

- 1.10 The finance department of a retail company has a computer-based model for forecasting tax revenue to use in preparing annual budgets. The internal audit group has been asked to audit the model. A reasonable objective of the audit would be to
- 1 verify that for varying input values the model gives results consistent with revenue behaviour.
 - 2 confirm that the model forecasts each kind of revenue within a small percentage of actual revenue.
 - 3 determine whether the programs used for this year's forecast were identical to those used in the previous year.
 - 4 ensure that the model was modified so that it would have forecasted the previous year's actual revenue.
- 1.11 Which of the following analytical review procedures would provide the most insight into the reasonableness of the increase in health care costs?
- 1 Develop a comparison of the costs incurred with similar costs incurred by other companies.
 - 2 Obtain the government index of health care costs for the comparable period of time and compare the rate of increase with that of the cost per employee incurred by the company.
 - 3 Obtain a bid from another health care administrator to provide the same administrative services as the current health care administrator.
 - 4 Develop a comparison of overall health insurance costs incurred by the company with similar costs incurred by companies in the same industry.
- 1.12 When conducting interviews during the early stages of an internal audit engagement, it is more effective to ...
- 1 ask for specific answers that can be quantified.
 - 2 ask people about their jobs.
 - 3 ask surprise questions about daily procedures.
 - 4 take advantage of the fact that fear is an important part of the engagement.
- 1.13 Internal auditors often flowchart a control system and reference the flowchart to narrative descriptions of certain activities. This is an appropriate procedure to ...
- 1 determine whether the system meets established management objectives.
 - 2 document that the system meets international auditing requirements.
 - 3 determine whether the system can be relied upon to produce accurate information.
 - 4 gain the understanding necessary to test the effectiveness of the system.
- 1.14 The chief audit executive was reviewing recent reports that had recommended additional engagements because of risk exposures to the organisation. Which of the following represents the greatest risk and should be the next assignment?
- 1 Three pre-numbered receiving reports were missing.
 - 2 There were several purchase orders issued without purchase requisitions.

- 3 Payment had been made for routine inventory items without a purchase order or receiving report.
- 4 Several times cash receipts had been held over an extra day before depositing.

1.15 An auditor experienced in air-quality issues discovered a significant lack of knowledge about legal requirements for controlling air emissions while interviewing the manager of the environmental, health and safety (EHS) department. The auditor should ...

- 1 alter the scope of the engagement to focus on activities associated with air emissions.
- 2 share extensive personal knowledge with the EHS manager.
- 3 take note of the weakness and direct additional questions to determine the potential effect of the lack of knowledge.
- 4 report potential violations in this area to the appropriate regulatory agency.

1.16 In the planning phase the scope of an internal audit engagement is defined by the ...

- 1 engagement objectives.
- 2 scheduling and time estimates.
- 3 preliminary survey.
- 4 engagement work program.

1.17 Which of the following statements is an engagement objective?

- 1 Observe the deposit of the day's cash receipts.
- 2 Analyse the pattern of any cash shortages.
- 3 Evaluate whether cash receipts are adequately safeguarded.
- 4 Recompute each month's bank reconciliation.

1.18 While planning an engagement, an internal auditor establishes engagement objectives to describe what is to be accomplished. Which of the following is a key issue to consider in developing engagement objectives?

- 1 The qualifications of the internal auditing staff selected for the engagement.
- 2 Risks associated with the activities to be reviewed.
- 3 Recommendations of the engagement client's employees.
- 4 The recipients of the final engagement communication.

1.19 In an engagement to review a not-for-profit organisation's special revenue fund, the primary engagement objective is to determine whether the organisation ...

- 1 complied with existing fund requirements and performed specified activities.
- 2 managed its resources economically and efficiently.
- 3 prepared its financial statements in accordance with accounting principles generally accepted in its country.
- 4 applies the funds in a way that would benefit the greatest number of people.

1.20 Which of the following is an appropriate objective in an engagement to review a personnel department? Determining whether ...

- 1 hourly employees are being paid only for hours actually worked as indicated by time cards or similar reports.
- 2 an equitable training program exists that provides all employees with approximately the same amount of training each year.
- 3 reference checks of prospective employees are being performed.
- 4 recruitment is being delegated to the various departments that have personnel needs.

QUESTION 2

13 marks

You are the chief audit executive (CAE) of a large manufacturing organisation. You use analytical review procedures in your planning to identify conditions that may require subsequent auditing procedures.

You have obtained the following information in respect of certain aspects of the organisation prior to the preparation of the year-end financial statements:

		2017	2016
		R	R
Inventory:	Raw materials	2 300 000	1 900 000
	Work-in-progress	600 000	700 000
	Finished goods	5 700 000	4 100 000
Sales		29 000 000	26 500 000
Cost of sales		20 000 000	19 700 000
Trade receivables		4 800 000	5 500 000
Creditors		3 000 000	2 800 000
Bank overdraft		1 900 000	1 400 000

The following ratios are for 2016:

- Inventory turnover ratio 4.7 times
- Trade receivables collection period 59 days

REQUIRED

Marks

- 2.1 Calculate the following:
- i) inventory turnover ratio,
 - ii) trade receivables collection period,
 - iii) acid test ratio, **and**
 - iv) interpret the results for the two years. **(10)**
- 2.2 Explain why the acid-test ratio may be better than the current ratio as a measure of the organisation's ability to pay for purchases as the accounts become due. **(3)**

QUESTION 3

16 marks

Modern internal auditors can hardly think of conducting internal audit engagements without using the computer. Computer assisted audit techniques have become an integral part of every phase of the internal audit engagement.

REQUIRED

Marks

Mention the steps that internal auditors should follow in planning an assurance engagement **and** for each step, describe how the internal auditor can make use of the computer in conducting that step. **(16)**

Your answer must be done in the following format:

Steps in the planning phase of an assurance engagement	Use of a computer in performing each step
•	•

QUESTION 4

12 marks

As an internal audit student, you are aware that the International Professional Practice Framework for Internal Auditors consists of three components (the definition of internal auditing; the Code of Ethics; and the International Standards for the Professional Practice of Internal Auditing).

REQUIRED

Marks

Consider the independent scenarios that follow below. For each of the scenarios, indicate and name the components and/or codes that have been violated. Support your answer by explaining the violation and indicating the requirements that should have been met.

Structure your answer as follows:

Permissible or not (1mark)	Reference to Professional practice requirements (2 marks)	Reason (1mark)
e.g. Code - Objectivity or Standard 1000 - Purpose, Authority & Responsibility		

4.1 Frans Khumalo, an internal audit manager, has been assigned to the planning of an audit at a department that is headed by his wife. **(4)**

- 4.2 John has just been appointed as an internal auditor at Moonlight (Pty) Ltd. When he asks the Chief Audit Executive about the internal audit charter, the CAE informs John that he does not see the need for an internal audit charter as every staff member has a job description. The CAE informs John that he has been the CAE for five years and although they never had a charter, the internal audit activity has always been able to deliver according to the audit plan. (4)
- 4.3 An internal audit manager informs you that he sees no need to know about the company's risk assessment. He further explains that the internal audit engagements are very simple, because they audit only the financial systems. Only if they have enough time left thereafter, do they perform other types of audits. However, they are not compelled to do this. (4)

QUESTION 5**39 marks**

Mrs Mbokodo, the chief audit executive (CAE) of Cellfood Limited, appointed you as an internal audit trainee. Mrs Mbokodo knows that you do not have internal audit experience and that you are currently studying towards a degree in Internal Auditing at Unisa.

Before giving you your first assignment, Mrs Mbokodo decided to test your knowledge with regard to the internal audit process, different audit approaches and the value of internal auditing. She asked you a couple of questions.

REQUIRED**Marks**

In answer to Mrs Mbokodo's questions,

- 5.1 describe the nature of the work that the internal audit activity is required to perform to improve the governance processes of an organisation. (6)
- 5.2 identify the parties who should be involved in a fraud risk assessment and state the role of each. (9)
- 5.3 briefly indicate the engagement planning steps in the internal audit process according to the International Standards for the Professional Practice of Internal Auditing. (6)
- 5.4 mention five (5) audit procedures normally used to collect audit evidence during the audit of an inventory count. (5)
- 5.5 describe the role of internal audit in the risk management process by referring to the Standards. (6)
- 5.6 indicate the internal auditor's responsibility in fraud deterrence. (7)

---X---

9 EXAMINATION

Requirements for admission to the examination

Submission of the **compulsory Assignment 01** by its due date will give you *admission* to the examination in this module. Admission will be obtained by submitting this assignment **in time** and not the marks you obtain for it. Please ensure that this assignment reaches the University **before or on the due date**. **Late submission of a compulsory assignment will result in you not being admitted to the examination. No extension will be given for the late submission of Assignments.**

The examination period

This module is offered in both semesters. This means that if you are registered for the first semester, you will write the examination in May/June 2018 and the supplementary examination will be written in October/November 2018. If you are registered for the second semester you will write the examination in October/November 2018 and the supplementary examination will be written in May/June 2019.

During the semester, the examination section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

Format of the examination paper

The duration of the examination is 2 hours. The exam paper consists of a scenario with questions. Students will have to apply their theoretical knowledge to the information provided in the scenario. The exam paper will have multiple choice questions and longer questions.

Previous examination papers

Previous examination papers are available to students on **myUnisa**. **Suggested solutions are not provided**. Please do not request these from us, as it is a departmental policy that we are not allowed to supply you with the memorandums. You may, however, accept that the type of questions that will be asked in the examination will be similar to those found in your study material.

Use the *Study @ Unisa* brochure for general guidance for the examination as well as for your preparation for the examination.

Calculator policy

Candidates may only use silent, electronic, battery-driven pocket calculators subject to the following conditions:

- Calculators must be cordless, and may not have print-out facilities or alpha keys;
- Any financial calculator will be allowed, as the following tables will not be provided:
 - Tables of present value factors for various discount rates for varying periods; and
 - Tables of future value factors for various interest rates for varying periods;
- The calculator function on mobile telephones or any electronic device (i.e. laptops and/or any Smart Phone) may not be used; and
- Candidates may not share a calculator with another candidate in the examination room.

10 FREQUENTLY ASKED QUESTIONS

The *Study @ Unisa* brochure contains an A–Z guide of the most relevant study information.

11 SOURCES CONSULTED

Only the prescribed textbook has been consulted.

12 CONCLUSION

We wish you every success with your Internal Auditing studies! We are here to assist you with the content of the module. Please make the most of your opportunity to learn about this module.

13 ADDENDUM

There are no addendums to this tutorial letter.