

EXAM PACK

AUI 2601

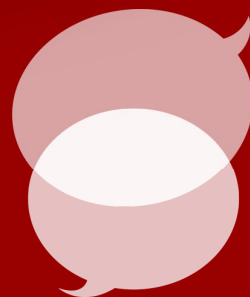
Suggested Solutions

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JUNE & NOV 2014

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together
WE PASS
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WELCOME

The suggested solutions have been prepared and compiled by our tutors.

As you are all aware that we a private institution and are not affiliated with Unisa in any way.

Please note these are suggested memos prepared and verified by our own tutors, there could be typing errors here and there but we have tried our level best to give you content that has been moderated to make sure that it meets the requirements of curriculum

As a responsible student you should also do further reading and also add more flesh to what the tutor would have provided you.

Good luck this term, and we look forward to working with you!

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AUI2601

OCTOBER/NOVEMBER 2015

INTERNAL AUDITING: THEORY AND PRINCIPLES

QUESTION 1

21 marks

REQUIRED

For each subsection of this question, select **one** alternative only that you consider the most correct answer. Then, as your answer, write down the number of the subsection and the letter that indicates the alternative you have selected. Answer the subsections of this question in numerical sequence, for example

1.1 A

1.2 B

Each question counts 1½ marks

- 1.1 The internal auditor prepares working papers primarily for the benefit of .
- A the audit committee
 - B the executive management of the auditee
 - C the internal audit activity
 - D the external auditor
- 1.2 Which of the following alternatives is not one of the four functions of management?
- A Reviewing
 - B Organising.
 - C Directing
 - D Planning
- 1.3 Which one of the following alternatives is **not** an internal audit procedure?
- A Recalculating the depreciation of fixed assets
 - B Verifying that there are two signatures of senior officials on all cheques
 - C Recommending improvements for the internal control system.
 - D Observing the daily clocking in of employees

- 1.4 The policies and procedures that help to ensure that management directives are executed and actions are taken to address the risks that threaten the achievement of the organisation's objectives describes
- A. risk assessments
 - B. control activities.
 - C. control environments
 - D. monitoring.
- 1.5 The scope of an internal audit engagement encompasses a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of all the following processes except for ...
- A. risk management.
 - B. control
 - C. regulation
 - D. governance
- 1.6 Which one of the following is not an element of the International Professional Practices Framework (IPPF)?
- A. The definition of internal auditing.
 - B. The International Standards for the Professional Practice of Internal Auditing
 - C. The internal audit charter
 - D. The IIA Code of Ethics.
- 1.7 An internal auditor who suspects fraud should ...
- A. determine whether a loss has been incurred
 - B. recommend an investigation if appropriate
 - C. identify the employees who could be involved in the case
 - D. interview those who have been involved in the control of assets.

- 1.8** Internal audit's working papers have the following characteristics
- A They are the property of the organisation and are available to all the company employees
 - B They become the property of the independent external auditors when completed
 - C They should be retained permanently in the organisation's records
 - D They document the auditing procedures performed, the information obtained and the conclusions reached
- 1.9** According to the International Standards for the Professional Practice of Internal Auditing (Standards), due professional care calls for ...
- A. infallibility and extraordinary audit performance when the system of internal control is inadequate
 - B detailed audits of all transactions related to a particular function
 - C testing transactions in sufficient detail to give absolute assurance that non-compliance does not exist
 - D. consideration of the possibility of material errors and irregularities during an audit assignment
- 1.10** Which of the following best describes the purpose of the internal audit activity?
- A To add value and improve an organisation's operations.
 - B To assist management with the design and implementation of risk management and control systems
 - C To examine and evaluate an organisation's accounting system as a service to management.
 - D To monitor the organisation's internal control system for the external auditors

- 1.11** Internal auditing standards assign the responsibility for providing appropriate audit supervision to the
- A. chief audit executive.
 - B. audit supervisor
 - C. senior auditor
 - D. audit committee
- 1.12** The IIA Code of Ethics requires internal auditors to perform their work with ...
- A. knowledge, skills and competencies
 - B. honesty, diligence and responsibility
 - C. punctuality, objectivity and responsibility
 - D. timeliness, sobriety and clarity.
- 1.13** Risk management is the responsibility of management. The role of the internal audit activity in the risk management process may include which one of the following?
- A. Evaluating the risk management process as part of the engagement plan
 - B. Appointing consultants to assist management with the risk management process
 - C. Managing the risk management process.
 - D. All of the above
- 1.14** Which one of the following is an attribute standard of the International Professional Practices Framework (IPPF)?
- A. Nature of work
 - B. Independence and objectivity
 - C. Resolution of management's acceptance of risks
 - D. Performing the engagement

QUESTION 2

30 marks

Thabo Khumalo has been an external auditor with an accounting firm for over 10 years. Thabo is contemplating changing his career to internal auditing, since there are so many similarities between external and internal auditing. However, Thabo approaches you for advice before making a final decision.

REQUIRED

Marks

In order to assist Thabo with his decision:

- 2.1** List **six (6)** differences between internal and external auditing. Your answer should be in the following format. **(12)**

Factor	Internal audit	External audit

- 2.2** List **ten (10)** personal characteristics that can assist an internal auditor to effectively discharge his or her internal auditing duties. **(5)**

- 2.3** Briefly describe the following concepts to Thabo. **(6)**
- a)** risk
 - b)** control
 - c)** governance

- 2.4** An internal auditor is also an adviser in the organisation. Give **seven (7)** examples of how internal audit can assist management. **(7)**

QUESTION 3

13 marks

You have recently been appointed as the chief audit executive (CAE) of a newly formed internal audit division at Data Magic (Pty) Limited. The company specialises in software training and has grown substantially over the last five years. During your review of the internal auditing documents, you see that the internal audit charter states that the CAE reports to the audit committee.

REQUIRED

- 3.1** Discuss the advantages and disadvantages of reporting to the audit committee. **(4)**

- 3.2** According to the IIA Standards, recommend the type of reporting preferred for independence purposes. **(2)**

- 3.3** List **seven (7)** practices that would enhance good relationships between the audit committee and the internal audit activity. **(7)**

QUESTION 4

16 marks

You have just been promoted to senior internal auditor, and your new responsibilities include providing training to internal audit trainees. As you go through the training file that was used by your predecessor you come across a comprehensive list of possible control activities that can be performed in an organisation. The list includes the following control activities, which are used to illustrate the different types of controls, namely preventive, detective and directive controls.

- 0 High-value stock items are locked in a safe.
- 1 The line manager reviews and signs all leave forms before employees go on leave
- 2 The accounting clerk performs bank reconciliations monthly
- 3 Employees use passwords to log onto their computers
- 4 The finance department's activities are guided by a comprehensive procedures manual

REQUIRED

Marks

- 4.1** For each of the control activities listed in the scenario above, indicate which type of control it represents **and** also for each control activity, describe an audit procedure (test of control) that may be used to determine whether the control is working as intended. **(10)**

Your answer should be structured as follows **Note:** Number 0 above is used as an example of how you should answer this question and does not carry any mark

Control activity	Type control mark)	of (1	Audit procedure (1 ½ marks)
0	<i>Preventive</i>		<i>Observe that high value stock items are stored in a safe and the safe is locked at all times</i>
1	xxx		xxx

- 4.2** Name and briefly describe the **four (4)** most common kinds of audit evidence **(6)**

QUESTION 5

20 marks

In the course of their duties, all internal auditors are required to adhere to the elements of the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA). You have come across the following ethical issues while conducting various audits

REQUIRED

Marks

Conclude and explain, **with reference** to the IIA Code of Ethics, whether each of the scenarios below is permissible or not. Please provide reasons for each of your conclusions.

Your answer should be structured as follows:

	Permissible/not permissible (1 mark)	Reference to IIA Code of Ethics (2 marks)	Reasons (1 mark)
5.1			

- 5.1** In response to a court order, an internal auditor is summoned to court to divulge confidential, engagement-related information that is potentially damaging to the organisation. The internal auditor refuses to appear in court. **(4)**
- 5.2** To save organisational costs, the chief audit executive has cancelled all staff training for the next two years on the basis that all internal audit staff are too new to benefit from such training **(4)**
- 5.3** John, an internal auditor has been assigned to audit the human resources department which is managed by his uncle **(4)**
- 5.4** Simon, the chief audit executive (CAE), disagrees with the engagement client about the observations that have taken place in and recommendations that have been made with regard to a sensitive area. Senior management has nevertheless accepted the risk and wants the findings removed from the report. Simon does not accept this and reports the matter to the board. **(4)**
- 5.5** The audit plan requires an extensive evaluation of the integrity of the information systems used by the organisation. Owing to budget constraints, the internal audit activity cannot appoint someone with the necessary experience to perform the required evaluation and nobody in the activity has proper experience for this engagement. You then offer to conduct the audit to the best of your ability. **(4)**

SUGGESTED SOLUTION (NOV 2015)

QUESTION 1

1.1	A	1.6	C	1.11	A
1.2	A	1.7	B	1.12	A
1.3	C	1.8	D	1.13	A
1.4	C	1.9	D	1.14	B
1.5	B	1.10	C	1.15	

QUESTION 2

2.1

Factor	Internal audit	External audit
Organisational Structure	Internal audit can be an external contractor or an in-house function.	External audit is an external contractor, never an employee of the company.
Objectives	Internal audit forms an opinion on the adequacy and effectiveness of systems of risk management and internal control, many of which fall outside many accounting system.	External audit seeks to provide an opinion on whether the accounts/financial statements presents a true and fair view of the organisation
Audit coverage	Internal audit covers all the organisation's operations.	External audit works primarily with those financial systems that have a bearing on the final accounts.
Methodology	Risk-based audits – assurance and consulting services.	Vouching and verification and some use of risk-based systems approach.
Legislation	Legally required in the public sector, encouraged in private sector.	Legally required for all registered companies and the public sector (small companies may have exemptions).
Certification	Certified Internal Auditor (CIA)	Chartered Accountant (CA)

Audit timeframe	Internal audit performs audits throughout the year.	External audit tends to be a year-end process, even though some testing may be carried out during the year.
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2.2

- Vision & Instinct
- Able to see big picture
- **Diligence and patience.**
- Decision making ability
- **Objectivity and confidence.**
- Good Communication Skills
- **Independence and sound judgement.**
- Global mindset
- Persuasiveness
- Integrity

2.3

- a) **Risk**-Risk is the possibility of an event occurring that will have an impact on the achievement of objectives .It is measured in terms of likelihood of & impact.
- b) **Control**-Control is any action taken by management, the board and other parties to manage risk & increase the likelihood that established objective & goals will be achieved.
- c) **Governance**-It is the combination of process & structure implemented by the board to inform, direct, manage, & monitor the activities of the organization toward the achievement of its objectives.

2.4 Roles of an internal Auditor

- Assisting indirectly with the prevention of fraud and error by recommending and ensuring the proper function of controls.
- Determining whether management policies are being complied with in all respects.
- Determining whether all applicable statutory requirements are being complied with.
- Communicating in an authoritative manner with management by means of reporting to improve and add value.
- Determining whether procedures relating to reporting are being complied with.
- Examining and evaluating the goals, policy, decisions, standards, procedures and controls of management.
- Identifying and recommending areas of improvement or change.

QUESTION 3

3.1 advantages

- **This is an independent board**-therefore organizational independence is achieved.
- Enforces internal audit recommendation.

disadvantages

- **TIME FACTOR**-lack quality time to support the internal audit activity on a day-to-day basis as an independent reporting facility. Audit committees meet on average four times a year.
- **Their functions are parallel**-The audit committee is apart from the main stream of business activities. As a result, the internal auditor does not always receive necessary information and directives which might enable him to function effectively.

3.2 Dual reporting (standard 1110)-Reporting functionally to the board and administratively to the CEO.

3.3

- Dual-reporting by chief audit executive, that is, functionally to the audit committee & administratively to the chief executive officer.
- The chief audit executive should have ready access to the audit committee.
- The chief audit executive should have direct and regular communication with the audit committee.
- The chief audit executive should attend audit committee meetings.
- The chief audit executive should regularly meet privately with the audit committee (without management's representatives in attendance).
- The audit committee should approve the appointment or removal of the chief audit executive.
- The audit committee should be advised by the chief audit executive concerning his or her relationship with the external auditors (and on how the internal and external audits.

QUESTION 4

4.1

CONTROL ACTIVITY	TYPE OF CONTROL	AUDIT PROCEDURE
1	Directive	Inspect leave forms to check for review & signatures of the line manager.
2	Detective	Re-perform bank reconciliations.
3	Preventive	Observe employees log onto their computers/Check for password on the computers.
4	Directive	Inquire of Management about the procedures.

4.2

- **Physical evidence**-It is obtained through the direct observation. It involves eye witnessing a process or procedure being done e.g inventory counts e.tc.
- **Oral evidence**-obtained through oral communication e.g interviews, enquiries.
- **Documentary evidence**- Refers to the one written or the one in electronic form. It can be internal(minutes) or external(bank statement, suppliers statement e.t.c).
- **Evidence generated by the internal auditor**-In this the auditor do some calculations and analysis according to appropriate standards and principles.

QUESTION 5

	Permissible/not permissible	REF to IIA Code of Ethics	Reasons
5.1	Permissible	Confidentiality	There is a legal or professional obligation.
5.2	Not permissible	Competency	Shall continually improve their proficiency and the effectiveness and quality of their services.
5.3	Not permissible	Objectivity	Shall not participate in any activity or relationship that may impair or be presumed impair their unbiased assessment.
5.4	Not permissible	Integrity	Shall observe the law and make disclosures expected by the law and the profession.
5.5	Not permissible	Competency	Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

AUI2601

May/June 2015

INTERNAL AUDITING: THEORY AND PRINCIPLES

Duration 2 Hours

100 Marks

EXAMINERS
FIRST
SECOND

MISS D SEBASTIAN
MRS BM VAN WYK

- 1.1** Independence permits internal auditors to render impartial and unbiased judgements. The best way to achieve independence is through
- A a dual-reporting relationship
 - B supervision within the organisation
 - C individual knowledge and skills
 - D organisational knowledge and skills
- 1.2** Indicate the option that completes the following sentence correctly
- The position of the chief audit executive is correctly defined as the
- A external provider of internal audit assurance services
 - B person employed by the organisation who is responsible for the internal audit activity
 - C person responsible for approving the internal audit charter
 - D auditor general
- 1.3** When assessing the risk associated with an activity, an internal auditor should
- A determine how the risk should best be managed

- B update the risk management process based on risk exposures
- C design controls to mitigate the identified risks
- D provide assurance on the management of the risk

1.4 Engagement information is usually considered relevant when it is

- A derived through valid statistical sampling
- B consistent with the engagement objectives
- C factual, adequate and convincing
- D objective and unbiased

1.5 Coordination of the internal and external auditing services can reduce overall assurance costs and lead to improved assurance services. According to the International Standards for the Professional Practice of Internal Auditing, who is responsible for coordinating these assurance services?

- A The chief audit executive
- B The board of directors
- C The audit committee
- D The external audit partner

1.6 A major reason for establishing an internal audit activity is to

- A relieve overburdened management of the responsibility for establishing effective controls
- B ensure the reliability and integrity of financial and operational information
- C safeguard resources entrusted to the organisation
- D evaluate and improve the effectiveness of control processes

- 1.7** The proper organisational role of internal auditing is to
- A perform studies to assist in the attainment of more efficient operations
 - B serve as an independent, objective assurance and consulting activity that adds value to operations
 - C serve as an investigative arm of the board
 - D assist the external auditor to reduce external audit fees
- 1.8** An adequately documented working paper should
- A follow a unique form and arrangement
 - B contain examples of all forms and procedures used by the engagement client
 - C not contain copies of engagement client records
 - D be concise but complete
- 1.9** Which one of the following options is an example of a detective control?
- A Use of carbon paper
 - B Personnel access cards
 - C Procedure manuals
 - D Physical stock counts
- 1.10** A recommendation in an audit finding should address which attribute?
- A Condition
 - B Criteria
 - C Cause
 - D Effect

- 1.11** An internal auditor's working papers should support the observations, conclusions and recommendations to be communicated. One of the purposes of this requirement is to
- A facilitate quality assurance reviews
 - B provide control over working papers
 - C permit the audit committee to review observations, conclusions and recommendations
 - D provide support for the internal audit activity's financial budget
- 1.12** Which type of audit attempts to measure the accomplishment and relative success of an undertaking?
- A Program-results audit
 - B Privacy audit
 - C Compliance audit
 - D Process audit

(Some questions have been adapted from Gleim: CIA Exam Review)

QUESTION 2

30 marks

Part A

The Minister of Basic Education has decided to implement an awareness programme focused on introducing different professions to Grade 10 learners. The focus of the initiative is to make learners aware of the different options available to them after completion of their secondary education. All the different divisions in the Department of Education (DoE) have been requested to make presentations on their field of expertise. The internal audit department has chosen you to do their presentation, introducing internal auditing to a local secondary school.

In your presentation you cover the following points

- Organisational objectives and how internal auditing can assist in achieving them
- Differences between internal auditing and external auditing
- Certain responsibilities of internal auditing

REQUIRED

Marks

2.1 Identify the type of organisational objective from the following definitions **(6)**

- 2 1 1 This type of organisational objective pertains to the effectiveness and efficiency of the organisation's operations, including performance and profitability goals and safeguarding resources against losses
- 2 1 2 This type of organisational objective pertains to the reliability of internal and external reporting of financial and operational information
- 2 1 3 This type of organisational objective pertains to the value creation choices management makes on behalf of the organisation
- 2 1 4 This type of organisational objective pertains to adherence to applicable laws and regulations

2.2 Complete the following table regarding some of the differences between external and internal auditing. The mark allocation is given in brackets **(11)**

Factor	Internal audit	External audit
Certification	2 2 1 (1)	Chartered Accountant
2 2 2 (1)	Institute of Internal Auditors	South African Institute of Chartered Accountants
Audit timeframe	2 2 3 (1½)	2 2 4 (1 ½)
Audit coverage	2 2 5 (1½)	External audit works primarily with those financial systems that have a bearing on the final accounts
Organisational structure	2 2 6 (1½)	External audit is an external contractor, never an employee of

		the company
Legislation	2 2 7 (1½)	2 2 8 (1½)

- 2.3** List those actions that could be conducive to good cooperation and coordination between the external and internal auditors (9)
- 2.4** Describe the responsibilities that the internal audit activity is required to perform to improve the **governance** processes of an organisation or the DoE by referring to the IIA Standards (4)

Part B

QUESTION 3

13 marks

At the Q&A session after your presentation, one of the students enquires whether internal auditing departments perform fraud audits

REQUIRED

- 3.1** There are common fraud schemes Match column A (fraud scheme) with its corresponding definition in column B Your answers should be given in the following format 3 1 1 Skimming - e (7)

No.	Column A – fraud scheme	Column B - definition
3 1 1	Skimming	a This involves providing false information, usually to those outside the organisation It usually involves fraudulent financial statements, although falsification of information used as performance measures can also occur
3 1 2	Asset misappropriation	b This is the offering, giving, receiving, or soliciting of anything of value to influence an outcome
3 1 3	Corruption	c. This involves diverting a potentially profitable transaction to an employee or outsider that would normally

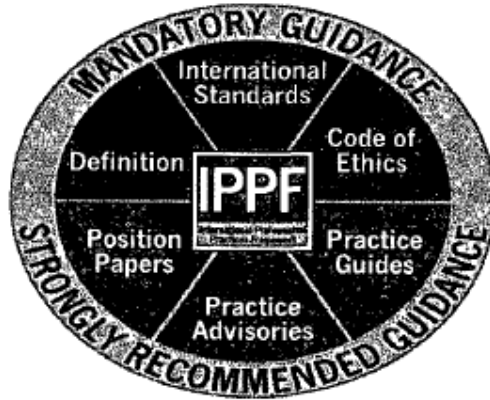
		generate profits for the organisation
314	Bribery	d This is the misuse of entrusted power for private gain It is often an off-book fraud, meaning that there is little financial-statement evidence available to prove that the crime occurred
315	Diversion	e This occurs when the fraudster causes the organisation to issue a payment by making false claims for compensation
316	Expense reimbursement fraud	f This involves stealing cash or assets from the organisation
317	Information misrepresentation	g This involves stealing cash from an organisation before it is recorded on the organisation's books and records
		h This involves an employee being paid for fictitious or inflated expenses
		i This involves misrepresenting the financial statements, often by overstating assets or revenue or understating liabilities and expenses

3.2 Describe the internal auditor's responsibilities regarding fraud when conducting audit engagements (6)

QUESTION 4

24 marks

All internal auditors are required, in the course of their duties, to adhere to the elements of the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA)



REQUIRED

Marks

- 4.1 According to the IIA Standards, the internal audit activity should have an internal audit charter. Define the internal charter and the elements of the charter. (4)
- 4.2 Conclude and explain, **with reference** to the IPPF, whether each of the unrelated scenarios below is permissible or not. Please provide reasons for each of your conclusions.

Your answer should be structured as follows

	Permissible/not permissible (1 mark)	Reference to IPPF (2 marks)	Reasons (1 mark)
4.2.1			

- 4.2.1 An internal auditor discovered some material inefficiencies in a purchasing function. The internal auditor does not report the finding, since the activity was not illegal. (4)
- 4.2.2 The chief audit executive decides to delay an audit at a branch so that the branch manager, will have time to "clean things up". (4)

- 4.2.3** During an audit, an internal auditor learns that the Chief Finance Officer (CFO) is going to be dismissed. Out of sympathy, the auditor relays this information to the CFO. **(4)**
- 4.2.4** An internal auditor is included in the internal audit review of the accounts payable section eighteen months after being the supervisor of the accounts payable section. **(4)**
- 4.2.5** For the past three years, the internal audit reports prepared by an internal audit activity (IAA) have always stated that their internal audit activities are concluded in accordance with the Standards for the Professional Practice of Internal Auditing. Regular internal assessments have been performed and recorded and the IAA was subjected to an external assessment of its quality improvement programme three years ago. **(4)**

QUESTION 5

15 marks

You are currently involved in an audit of the payroll section of HugeFeeds (Pty) Ltd, a company with a large labour force. The following controls have been implemented at the company:

- i For an employee to be successfully entered on the employee masterfile, a valid income tax number and identity number for the new employee must be entered in the designated field.
- ii The company has a computensated time-keeping system, every morning the factory manager reviews an on-screen report which lists the name and section of any employee who is absent from or late for work.
- iii Mr Radebe, the human resources manager, frequently reviews the log of amendments to the employee master file.
- iv To effect any EFT payment, the transfer must be "authorised" by a senior employee and "released" by a second senior employee (the two signatories principle).
- v Before the payroll is processed, the factory manager approves the schedule of overtime hours recorded.
- vi To gain access to the company's local area network, an employee must enter his/her user ID and password.

REQUIRED

Marks

- 5.1** During the fieldwork of an audit, the auditor performs audit procedures. Explain the following types of audit procedures. **(9)**
- 5.1.1** Inspection
 - 5.1.2** External confirmation
 - 5.1.3** Reperformance
 - 5.1.4** Analytical procedures
 - 5.1.5** Inquiry
 - 5.1.6** Tracing
- 5.2** In respect of each of the above-mentioned controls (i to vi), identify whether it is a preventive or detective control. **(6)**

SUGGESTED SOLUTION/ MAY JUNE 2015

QUESTION 1

1.1	A	1.6	D	1.11	A
1.2	B	1.7	B	1.12	A
1.3	B	1.8	D	1.13	
1.4	B	1.9	C	1.14	
1.5	A	1.10	C	1.15	

QUESTION 2

2.1

2.1.1 Operations objectives

2.1.2 Reporting objectives

2.1.3 Strategic Objectives

2.1.4 Compliance objectives

2.2

Factor	Internal audit	External audit
Organisational structure	Internal audit can be an external contractor or an in-house function.	External audit is an external contractor, never an employee of the company.
Audit coverage	Internal audit covers all the organisation's operations.	External audit works primarily with those financial systems that have a bearing on the final accounts.
Legislation	Legally required in the public sector, encouraged in private sector.	Legally required for all registered companies and the public sector (small companies may have exemptions).
Certification	Certified Internal Auditor (CIA)	Chartered Accountant (CA)

Audit timeframe	Internal audit performs audits throughout the year.	External audit tends to be a year-end process, even though some testing may be carried out during the year.
Membership affiliation	Institute of Internal Auditors (IIA)	South African Institute of Chartered Accountants (SAICA)

2.3

- A common audit methodology.
- Joint training programmes.
- Joint planning of audit work.
- Direct assistance with each other's projects.
- Exchange of audit reports
- Direct support in that working papers are at each other's disposal.
- Periodic meetings
- A professional attitude
- The evaluation by internal and external auditors of the effectiveness of each other's work and reporting on this to management

2.4 Standard 2110 ref

- Promoting appropriate ethics and values within the organisation;
- Ensuring effective organisational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

QUESTION 3

3.1

No.	Column A-term	Column B-defination
3.1.1	Skimming	g
3.1.2	Asset misappropriation	f
3.2.3	corruption	d
3.2.4	Bribery	b
3.2.5	Diversion	c
3.2.6	Expense reimbursement	h
3.2.7	information mispresentation	a

3.2

- Consider fraud risks in the assessment of internal control design and determination of audit steps to perform.
- Document fraud risk in the working papers, as well as linkage of fraud risks to specific audit work.
- Have sufficient knowledge of fraud to identify red flags indicating fraud may have been committed.
- Be alert to opportunities that could allow fraud, such as control deficiencies.
- Evaluate whether management is actively retaining responsibility for oversight of the fraud risk management program, that timely and sufficient corrective measures have been taken with respect to any noted control deficiencies or weaknesses, and that the plan for monitoring the program continues to be adequate for the program's ongoing success.
- Evaluate the indicators of fraud and decide whether any further action is necessary or whether an investigation should be recommended.
- Recommend investigation when appropriate.

QUESTION 4

4.1

The **internal audit charter** is a formal document that defines the internal audit activity's purpose, authority, and responsibility.

Elements

- The purpose of the Internal Audit Activity
- The scope of the Internal Audit activities
- The responsibilities of the Internal Audit Activity
- The relationship and coordination with the External Auditor
- The Audit Plan
- The reporting
- The Internal Audit Activity authority and its position within the Company to ensure its independence.
- The standards of audit practice.

4.2

	Permissible/not permissible	REF to IIA Code of Ethics	Reasons
4.2.1	Not Permissible	objectivity	Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
4.2.2	Not permissible	Integrity	Shall respect and contribute to the legitimate and ethical objectives of the organization.
4.2.3	Not permissible	Confidentiality	Shall be prudent in the use and protection of information acquired in the course of their duties.
4.2.4	Not permissible	Objectivity	Shall not participate in any activity or relationship that may impair or be presumed impair their unbiased assessment.
4.2.5	Permissible	Competency	Shall continually improve their proficiency and the effectiveness and quality of their services.

QUESTION 5

5.1

5.1.1 Inspection-examinations of records or documents, whether internal or external in paper form, electronic form or in the form of other media, or a physical examination of an asset.

5.1.2 External Confirmation-Obtaining external confirmation entails receiving a direct written response from a third party to a request from the auditor to that third party.

5.1.3 Reperformance-The auditor independently execution of procedures (e.g bank reconciliation).

5.1.4 Analytical procedures-Analytic procedures consist of evaluating financial information through analysis of plausible relationships among financial and non-financial information.

5.1.5 Inquiry-Inquiry entails seeking information, both financial and non-financial from knowledgeable persons within or outside the entity.

5.1.6 Tracing-This involves the selection of documents for tracing to the relevant entries recorded in the accounting records. It test for completeness.

5.2

- i. Preventive
- ii. Detective
- iii. Detective
- iv. Preventive
- v. Preventive
- vi. Preventive

AUI2601

October/November 2014

INTERNAL AUDITING: THEORY AND PRINCIPLES

- 1.3 When an internal auditor identifies multiple factors that have been linked to possible fraudulent conditions and suspects that fraud has taken place, the auditor should
- A report immediately to senior management and the board
 - B recommend an investigation
 - C report immediately to the board.
 - D extend tests to determine the extent of the fraud
- 1.4 Which one of the following statements best describes an internal audit charter?
- A A standard document to be used by all internal audit departments
 - B Defines only assurance services provided to the organisation
 - C Defines the purpose, authority and responsibility of the internal audit activity
 - D An internal audit charter is optional.
- 1.5 Coordination of the internal and external auditing services can reduce overall assurance costs and lead to improved assurance services. According to the International Standards for the Professional Practice of Internal Auditing, who is responsible for coordinating these assurance services?
- A The chief audit executive
 - B The board of directors
 - C The audit committee
 - D The external audit partner

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- A The chief audit executive
 - B The board of directors
 - C The audit committee
 - D The external audit partner

- 1.6 Which one of the following alternatives forms part of the personal characteristics required of an internal auditor?
- i. Practical approach
 - ii. Extrovert personality.
 - iii. Assertive
 - iv. Good interpersonal relations
- A i and ii.
- B ii and iv
- C i and iv
- D ii and iii
- 1.7 Indicate the alternative which correctly completes the following sentence
The main purpose of an internal audit is to
- A. review the means of safeguarding assets and as appropriate, verify the existence of such assets
 - B. review the reliability and integrity of financial and operating information
 - C. appraise the effectiveness and efficiency of operations
 - D. assist management of the organisation in the effective discharge of their responsibilities
- 1.8 Which of the following principles does not form part of the Institute of Internal Auditors (IIA) Code of Ethics?
- A Integrity
 - B Confidentiality
 - C Competency
 - D Responsibility

- 1.9 Which one of the following options is an example of a directive control?
- A. Review of exception reports
 - B. Personnel access cards.
 - C. Procedure manuals
 - D. Physical stock counts
- 1.10 The scope of an internal audit engagement encompasses a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of all the following processes except for .
- A. regulation
 - B. risk management.
 - C. control.
 - D. governance

(Some questions have been adapted from Gleim: CIA Exam Review)

- VI Designing the risk management process for the company
- VII Conducting a control self-assessment training for management of the company

QUESTION 2

20 marks

You are an internal auditor at Priceless Memories Ltd. You have been working together well as a team and management seems to be very supportive of the internal audit activity.

The Chief Executive Officer (CEO), Mr Douglas requests the internal audit activity to assist with the following tasks as other departments have too much work to do:

- I. Performing the monthly bank reconciliations on the company's bank account
- II. Evaluating the adequacy and effectiveness of the controls in the Sales, Receivables and Cash Receipts cycle
- III. Performing inventory counts every month as part of the company's internal control over its perpetual inventory
- IV. Searching for suitable financial staff.
- V. Conducting a review of the extent to which the marketing department complies with the policy and procedures laid down by the company

REQUIRED	Marks
2.1 Indicate for each of the tasks (I-VI) above whether it should be performed by the internal audit activity or not Give reasons for your answer	(14)
2.2 The CEO has requested additional information on the types of audits (such as fraud audits, IT audits, etc) that internal auditors can perform Identify the type of audit from the following definitions	(6)
2.2.1 This type of audit entails a systematic and independent examination to determine whether quality-related activities are implemented effectively and are complying with the quality systems and standards	
2.2.2 In this type of audit, the auditor looks for evidence relating to the reliability and integrity of financial information	
2.2.3 This type of audit involves firstly determining management's objectives, followed by establishing whether the existing management controls will lead to effectiveness, efficiency and economy	
2.2.4 In this type of audit, a comprehensive examination of the facility is conducted to determine whether it is complying with environmental laws and regulations	

QUESTION 3 **18 marks**

You act as a mentor to junior internal auditors in the internal audit department Your responsibilities include assisting junior auditors with their studies and other aspects of their training as internal auditors

Answer the following queries posed to you by a new junior internal auditor during a mentoring session

REQUIRED	
3.1 The internal audit process consists of four (4) phases The third phase is audit fieldwork List the benefits of compiling audit working papers during this phase	(5)
3.2 According to IIA Standards 2420, communication must be accurate, objective, clear, concise, constructive, complete and timely Define the terms:	(6)
3.2.1 clear	
3.2.2 accurate	
3.2.3 concise	
3.2.4 constructive	
3.3 There is a glossary of internal auditing terms Match column A (term) with its corresponding definition in column B Your answer should look as follows 3.3.1 Risk - e	(7)

No.	Column A – term	Column B - definition
331	Risk	a. Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved
332	Chief Audit Executive	b. An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation
333	Consulting services	c. A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives
334	Control	d. A person in a senior position responsible for effectively managing the internal audit activity in accordance with the

		internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards
3.3.5	Objectivity	e Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility.
3.3.6	Independence	f An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made
3.3.7	Control processes	g The possibility of an event occurring that will have an impact on the achievement of objectives.
		h The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.
		i. The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner

QUESTION 4

25 marks

All internal auditors are required, in the course of their duties, to adhere to the elements of the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA)



The International Standards consists of Attribute, Performance and Implementation Standards.

REQUIRED

Marks

- | | | |
|------------|---|------------|
| 4.1 | Identify which Standard (Attribute, Performance or Implementation) is being referred to from the following characteristics | (5) |
| 4.1.1 | These Standards comprise the 1000 series | |
| 4.1.2 | These Standards describe the nature of internal audit services and provide quality criteria against which the performance of these services can be measured | |
| 4.1.3 | These Standards comprise the 2000 series | |
| 4.1.4 | These Standards provide guidance applicable in specific types of engagements | |
| 4.1.5 | These Standards address the characteristics of the internal audit activity and the individuals performing the internal audit activities | |

4.2 Conclude and explain, **with reference** to the IPPF, whether each of the unrelated scenarios below is permissible or not. Please provide reasons for each of your conclusions

Your answer should be structured as follows

	Permissible/not permissible (1 mark)	Reference to IPPF (2 marks)	Reasons (1 mark)
4.2.1			

- 4.2.1 Some of the work on an audit engagement in the procurement section is assigned to an internal auditor whose father is heading the section (4)
- 4.2.2 During an audit, you overheard that the chief executive officer (CEO) of the company might be resigning due to fraud allegations against him. You know people who have shares in the company and you decided to inform them about the possibility that the share price may fall (4)
- 4.2.3 During the planning of an audit of engineering projects, the auditor is informed that the company's first project for a mining company is amongst the projects completed for the period to be audited. The auditor includes the audit in the audit scope and makes provision in his planning to consult with mining sector specialists for the audit (4)
- 4.2.4 An internal auditor accepts an excuse from a manufacturing site manager for ignoring regulations on the treatment of hazardous waste and mentions nothing in his final report (4)
- 4.2.5 Owing to work and personal constraints, an internal auditor has not attended any internal audit training for the past two years (4)

QUESTION 5

22 marks

The Chief Audit Executive (CAE) requests a private meeting with the audit committee to discuss the internal audit charter, the internal audit activity's position in Priceless Memores Ltd and its contribution to the company

One of the audit committee members also wants to discuss the possibility of the CAE reporting to the audit committee

- 5.1 Mention the five (5) necessary aspects that have to be included in the internal audit charter to grant the internal audit activity the necessary authority. (5)
- 5.2 Discuss the advantages and disadvantages of the CAE reporting to the audit committee (3)
- 5.3 According to the IIA Standards, recommend what type of reporting is preferred for independence purposes (2)
- 5.4 List seven (7) practices that would enhance a good relationship between the audit committee and the internal audit activity (7)
- 5.4 Explain the internal auditor's role in **investigating** fraud (5)

SUGGESTED SOLUTIONS OCT NOV 2014

QUESTION 1

1.1	B	1.6	C
1.2	B	1.7	C
1.3	B	1.8	D
1.4	C	1.9	C
1.5	A	1.10	A

QUESTION 2

2.1

	Performed/not performed	Reason
i	Not performed	Management's responsibility
ii	Performed/not performed	Evaluation/independent factor/Control measure
iii	Not performed	Management's responsibility
iv	Not performed	management organising
v	performance	Assurance services
vi	Performed	Consulting service

2.2

2.2.1 Quality audit

2.2.2 Financial Audit

2.2.3 Performance Audit

2.2.4 Compliance Audit

3.1

- They provide an audit manager with a basis for reviewing the fieldwork of junior members of staff.
- Audit working papers also serve as a guide in the performance of follow-up or subsequent internal audits.

3.2.1 Clear- communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information

3.2.2 Accurate- communications are free from errors and distortions and are faithful to the underlying facts.

3.2.3 Concise- communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness

3.2.4 Constructive- communications are helpful to the engagement client and the organisation and lead to improvements where needed.

3.3

No.	Column A-term	Column B-Defination
3.3.1	Risk	g
3.3.2	CAE	d
3.3.3	Consulting Services	e
3.3.4	Control	a
3.3.5	Objectivity	f
3.3.6	Independence	l
3.3.7	Control processes	h

QUESTION 4

4.1

4.1.1 Attribute

4.1.2 Performance

4.1.3 Performance

4.1.4 Implementation

4.1.5 Attribute

4.2

	Permissible/Not permissible	REF to IPPF	REASONS
4.2.1	Not Permissible	Objective	Familiarity interest/Relationship impairs the auditors assessments
4.2.2	Not Permissible	Confidentiality	Shall not disclose any information contrary to the law or profession
4.2.3	Permissible	Competency	Shall consult expert in the industry to assist them
4.2.4	Not Permissible	Integrity	Shall observe the law and make disclosures expected by the law and the profession
4.2.5	Not Permissible	Competency	Shall continually improve their proficiency and the effectiveness and quality of their services.

QUESTION 5

5.1

- Access to the books, records, vouchers and accounts
- Obtaining information and explanations
- Attending meetings
- Believing trusted officials
- Independence of the internal auditor

5.2

advantages

- **This is an independent board**-therefore organizational independence is achieved.
- Enforces internal audit recommendation.

disadvantages

- **Time factor**-lack quality time to support the internal audit activity on a day-to-day basis as an independent reporting facility. Audit committees meet on average four times a year.
- **Their functions are parallel**-The audit committee is apart from the main stream of business activities. As a result, the internal auditor does not always receive necessary information and directives which might enable him to function effectively.

5.3

Dual reporting (standard 1110)-Reporting functionally to the board and administratively to the CEO.

5.4

- Dual-reporting by chief audit executive, that is, functionally to the audit committee & administratively to the chief executive officer.
- The chief audit executive should have ready access to the audit committee.
- The chief audit executive should have direct and regular communication with the audit committee.
- The chief audit executive should attend audit committee meetings.
- The chief audit executive should regularly meet privately with the audit committee (without management's representatives in attendance).

- The audit committee should approve the appointment or removal of the chief audit executive.
- The audit committee should be advised by the chief audit executive concerning his or her relationship with the external auditors (and on how the internal and external audits.)

5.4

Internal auditors can assist in deterring fraud by examining and evaluating the adequacy and effectiveness of internal controls.

- Monitoring the investigation process to help the organisation follow relevant policies, procedures, and applicable laws and statutes (where internal auditing was not responsible for conducting the investigation).
- Locating and/or securing the misappropriated or related assets.
- Supporting the organisation's legal proceedings, insurance claims, or other recovery actions.
- Evaluating and monitoring the organisation's internal and external post-investigation reporting and communication plans and practices.
- Monitoring the implementation of recommended control enhancement.

AUI2601

INTERNAL AUDITING: THEORY AND PRINCIPLES

- 1.1 The most important benefit that the audit committee provides to the internal auditor is to
- A review annual audit plans and to monitor audit results
 - B protect the independence of the internal auditor from undue management influence
 - C approve audit plans and to schedule meetings with the internal auditor
 - D review copies of the procedure manuals for selected company operations and discuss such manuals with a company official
- 1.2 A working paper is complete when it
- A complies with the internal audit activity's format requirements
 - B is clear, concise and accurate
 - C contains all of the attributes of an observation
 - D satisfies the engagement objective for which it is developed
- 1.3 Coordination of internal and external auditing can reduce overall costs. Who is responsible for actual coordination of internal and external auditing efforts?
- A External auditor
 - B The board
 - C Chief Audit Executive
 - D Management

- 1.4 Which one of the following represents appropriate internal audit action in response to the risk assessment process?
- I The low risk areas may be delegated to the external auditor, but the high risk areas should be audited by the internal audit function
 - II The high risk areas should be integrated into an internal audit plan along with the high priority requests of management and the audit committee
 - III The risk analysis should be used in determining an annual internal audit work plan, therefore the risk analysis should be performed only on an annual basis
- A I only
 - B II only
 - C III only
 - D I and III only
- 1.5 During an audit of the organisation's accounts receivables function, an internal auditor plans to confirm balances with debtors. What is the source of authority for such communication with parties outside the organisation?
- A The internal audit activity charter
 - B The IIA Code of Ethics
 - C The International Standards for the Professional Practice of Internal Auditing
 - D The internal audit activity policies and procedures

- 1.6** In an organisation with a separate division that is primarily responsible for the prevention of fraud, the internal audit activity is responsible for
- A establishing and maintaining that division's system of internal control
 - B controlling that division's fraud prevention activities
 - C planning that division's fraud prevention activities
 - D examining and evaluating the adequacy and effectiveness of that division's actions taken to prevent fraud
- 1.7** The proper organisational role of internal auditing is to
- A assist the external auditor to reduce external audit fees
 - B perform studies to assist in the attainment of more efficient operations
 - C serve as an independent, objective assurance and consulting activity that adds value to operations
 - D serve as an investigative arm of the board
- 1.8** Which technique is most appropriate for determining whether mail room staff is fully used?
- A Inspection of documents
 - B Inquiry
 - C Analytical review
 - D Observation
- 1.9** What attribute should a recommendation in an internal audit report should address?
- A Condition
 - B Criteria
 - C Cause
 - D Effect

1.10 What does due professional care call for?

- A Consideration of the possibility of material irregularities during every audit
- B Detailed reviews of all transactions related to a particular function
- C Infallibility and extraordinary performance when the system of internal controls is known to be weak
- D Testing in sufficient detail to give absolute assurance that noncompliance does not exist

(Some questions were adapted from Gleim: CIA Exam Review)

QUESTION 2

24 marks

You are a manager for Creative Business, a short term insurance company

You have been invited to present a lecture for the internal auditing students at Unisa
The topic for your lecture is "The various roles of internal auditors"

REQUIRED

Marks

In your lecture, discuss the following topics

- | | |
|--|-------------------|
| <p>2.1 Internal auditing consists of assurance and consulting services. For the following services to the auditee, identify whether it is an assurance or consulting service</p> <p>2.1.1 Assessing whether management's policies and procedures are adhered to</p> <p>2.1.2 Conducting control self-assessment training</p> <p>2.1.3 Advising during the development of policies and procedures</p> <p>2.1.4 Examining whether control procedures are mitigating the risks identified</p> <p>2.1.5 Providing advice to management on certain enterprise risk management activities</p> | <p>(5)</p> |
| <p>2.2 List ten (10) personal characteristics required of an internal auditor</p> | <p>(5)</p> |
| <p>2.3 Organisational independence is effective when the chief audit executive reports functionally to the board. List five (5) responsibilities of the board that would constitute functional reporting</p> | <p>(5)</p> |
| <p>2.4 Explain the roles of management and the internal auditor with regard to risk management</p> | <p>(5)</p> |
| <p>2.5 Describe the internal auditor's responsibilities regarding detection of fraud</p> | <p>(4)</p> |

QUESTION 3

36 marks

You act as a mentor to junior internal auditors in the internal audit department. Your responsibilities include assisting junior auditors with their studies and other aspects regarding their training as internal auditors.

Answer the following queries posed to you by a new junior internal auditor during a mentoring session.

REQUIRED

Marks

- 3.1** The internal audit process consists of four (4) phases. The second phase is planning the internal audit (engagement planning). List the five (5) **planning steps** that should be followed for each audit. **(5)**
- 3.2** There are different kinds of audit evidence, namely physical, oral, documentary and evidence generated by the internal auditor. **(5)**

Examine each of the following items and identify each item as physical evidence, oral evidence, documentary evidence or evidence generated by the internal auditor.

- a Recalculation of auditee-prepared bank reconciliation to test whether they were completely correct.
- b Attendance at a wage payout.
- c Written statements of auditee personnel in response to

inquiries or interview questions.

- d Letter of confirmation from the bank in respect of a fixed deposit held by the company (auditee).
- e Inspection of selected assets to confirm their existence.

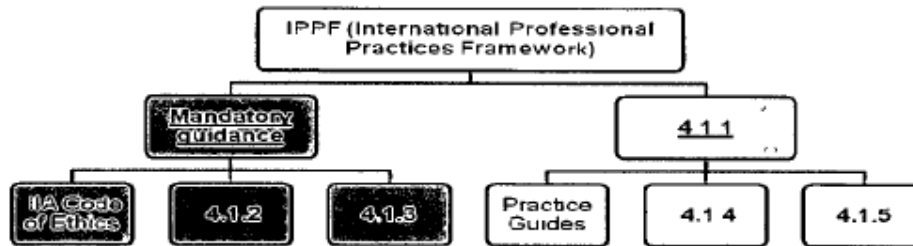
- 3.3** The following data was gathered during one of the recent audits of the Cash Disbursements Section. One of the findings was on the outdated Delegation of Authority policy. In preparing a report of the findings, each of the items should be classified as criteria, cause, condition and effect. Examine the following items and state each item as the **Criteria, Condition, Cause and Effect**. Give reasons for each classification. (1 mark per classification and 1 mark for reason) **(8)**
- a. The delegation of authority is updated biannually and not when changes in personnel or responsibilities of authorised individuals occur
 - b. The delegation of authority policy list three individuals who are no longer with the company. Additionally, four individuals were identified who are new in their positions that should have disbursement authority, but are not listed in the policy
 - c. Disbursements may be made that are not in accordance with management's or board's direction
 - d. Authority over the disbursement of funds should only be delegated to individuals whose responsibilities justify such authority
- 3.4** Internal auditors have an obligation toward their employer to act in good faith in fulfilment of their duties. List the duties of an internal auditor towards his or her employer? **(5)**
- 3.5** Define the internal charter and also list its elements **(4)**
- 3.6** List those actions that could be conducive to good cooperation and coordination between external and internal auditors **(9)**

QUESTION 4

25 marks

Read the following statement and the accompanying diagram below and answer the questions that follow

All internal auditors are required, in the course of their duties, to adhere to the elements of the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA)



REQUIRED

Marks

- 4.1 The figure above depicts the IPPF and its components. Fill in all the missing items in it. (5)
- 4.2 Conclude and explain, **with reference** to the IPPF, whether each of the unrelated scenarios below is permissible or not. Please provide reasons for each of your conclusions.

Your answer should be structured as follows

	Permissible/not permissible (1 mark)	Reference to IPPF (2 marks)	Reasons (1 mark)
4.2.1			

- 4.2.1** Simon, an internal auditor conducted an audit on the procurement processes of the organisation. He confirmed that suppliers that had failed to deliver any goods to the organisation were still paid. The procurement manager threatened to have him fired if he reported on this. Because he could not afford to lose his job, he omitted this finding from the report. **(4)**
- 4.2.2** The audit plan requires an extensive evaluation of the integrity of the information systems used by the organisation. Due to budget constraints, the internal audit activity cannot appoint someone with the necessary experience to perform the required evaluation and nobody in the activity has proper experience for this engagement. You then, offered to conduct the audit to the best of your ability. **(4)**
- 4.2.3** At the annual award function of your company, you were presented with the "Employee of the year" award. For this, you received a trophy and a cash prize of R2 000. **(4)**
- 4.2.4** John Khumalo, an internal auditor at Skhumbuso (Pty) Ltd, informed you that he purchased a new laptop for his own personal use at great discount. He used one of the approved company suppliers through his friend who is the procurement manager at Skhumbuso (Pty) Ltd. **(4)**
- 4.2.5** An internal auditor discloses confidential, engagement-related information that is potentially damaging to the organisation in response to a court order. **(4)**

SUGGESTED SOLUTIONS MAY JUNE 2014

QUESTION 1

1.1	B	1.6	D
1.2	B	1.7	C
1.3	C	1.8	A
1.4	B	1.9	C
1.5	A	1.10	A

QUESTION 2

2.1

2.1.1 Assurance

2.1.2 Consulting

2.1.3 Consulting

2.1.4 Assurance

2.1.5 Consulting

2.2

- Vision & Instinct
- Able to see big picture
- **Diligence and patience.**
- Decision making ability
- **Objectivity and confidence.**
- Good Communication Skills
- **Independence and sound judgement.**
- Global mindset
- Persuasiveness
- Interguity

2.3

- Approving the internal audit charter;
- Approving the risk based internal audit plan;
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

2.4

Management is accountable to the board for designing, implementing and monitoring the process of risk management, and for integrating it into the day-to-day activities of the company.

The internal audit activity should assist the board, directors and management through consultation and facilitation in identifying, evaluating and assessing significant risks and

By providing independent assurance as to the adequacy and effectiveness of related internal controls and the risk management process as indicated by the applicable Standards.

2.5

- Internal auditors evaluate risks faced by their organisations based on audit plans with appropriate testing.
- Internal auditors need to be alert to the signs and possibilities of fraud within an organisation.
- Specifically, internal auditors can assist in deterring fraud by examining and evaluating the adequacy and effectiveness of internal controls.

- In addition, they may assist management in establishing effective fraud prevention measures by knowing the organisation’s strengths and weaknesses and providing consulting expertise.

QUESTION 3

3.1

1. Obtain background information of the audit area. (preliminary survey).
2. Identify the engagement objective(s) to be achieved.
3. Consider the audit risk.
4. Determine the allocation of engagement resources.
5. Compile the detailed engagement (audit) programme.

3.2

- a –Evidence generated by the auditor
- b- Physical evidence
- c- Oral evidence
- d- Documentary
- e- Evidence generated by the auditor

3.3

	Classification	Reason
a	Cause	This caused the differences/Risk
b	Condition	Evidence the auditor found

c	Effect	Risk/Exposure
d	Criteria	Measurement for evaluation

3.4

- Duty not perform acts of dishonesty (fraud, theft) against their employer.
- Duty not to use confidential information obtained in the performance of their duties for their own gain, or impart such knowledge to third parties.
- Duty to further the interests of their employer's business undertaking.
- Duty not to perform acts which are in competition with their employer.
- Duty not to perform acts of misconduct while performing their duties.

3.5

The **internal audit charter** is a formal document that defines the internal audit activity's purpose, authority, and responsibility.

Elements

- The purpose of the Internal Audit Activity
- The scope of the Internal Audit activities
- The responsibilities of the Internal Audit Activity
- The relationship and coordination with the External Auditor
- The Audit Plan
- The reporting
- The Internal Audit Activity authority and its position within the Company to ensure its independence.
- The standards of audit practice.

3.6

- A common audit methodology.
- Joint training programmes.
- Joint planning of audit work.
- Direct assistance with each other's projects.

- Exchange of audit reports
- Direct support in that working papers are at each other's disposal.
- Periodic meetings
- A professional attitude
- The evaluation by internal and external auditors of the effectiveness of each other's work and reporting on this to management

QUESTION 4

4.1

4.1.1 Strongly recommended guidance

4.1.2 International standards

4.1.3 Definition

4.1.4 Practice advisories

4.1.5 Position papers

4.2

	Permissible/not permissible	REF to IIA Code of Ethics	Reasons
4.2.1	Not Permissible	objectivity	Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.
4.2.2	Not permissible	Competency	Shall engage only in those services for which they have the necessary knowledge, skills, and experience
4.2.3	Not permissible	objectivity	Shall not accept anything that may impair or be presumed to impair their professional judgment.
4.2.4	Not permissible	Objectivity	Shall not participate in any activity or relationship that may impair or be presumed impair their unbiased assessment.
4.2.5	Permissible	Confidentiality	Disclose since this is required by law/court



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