

Tutorial Letter 101/3/2015

Internal Auditing: Theory and Principles AUI2601

Semesters 1 & 2

Department of Auditing

IMPORTANT INFORMATION:

Please activate your myUnisa and myLife email addresses and ensure you have regular access to the myUnisa module site AUI2601-2015S1/2 as well as your group site.

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

BAR CODE

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1 INTRODUCTION

Dear Student

It gives us great pleasure to welcome you as an AUI2601 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.

Because this is a fully online module, you have to use myUnisa to study and complete the learning activities for this course. You need to visit the websites for AUI2601 on myUnisa frequently. The website for your module is AUI2601-15-S1/S2.

1.1 Getting started...

Because this is a fully online module, you need to go online to see your study materials and read what to do for the module. Go to the website here: <https://my.unisa.ac.za> and login with your student number and password. You will see AUI2601-15-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.

In addition, you will receive this tutorial letter and a printed copy of the online study material for your module. While these printed materials may appear to be different from the online study materials, they are exactly the same and have been copied from the myUnisa website.

We wish you success on your journey!

2 OVERVIEW OF THIS MODULE AUI2601

2.1 Purpose

Students who successfully complete this module will have a basic understanding of the theory, principles, standards and practice of internal auditing and will be able to adapt to the rapidly changing discipline of internal auditing in a structured manner.

2.2 Outcomes

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

- **Specific outcome 1:** Demonstrate an understanding of the theoretical concepts underlying internal auditing.
- **Specific outcome 2:** Determine the functional role of the internal auditor in an organisation.
- **Specific outcome 3:** Describe professionalism and the generally accepted elements of a profession.
- **Specific outcome 4:** Demonstrate the qualifications, characteristics, powers, duties and liabilities of an internal auditor.
- **Specific outcome 5:** Demonstrate the ability to apply the main systematic steps in the conduct of an internal audit.
- **Specific outcome 6:** Discuss the relationship between internal auditing and related disciplines.

3 CONTACT DETAILS

3.1 Lecturer

The primary lecturer for this module is Desiree Sebastian.

Department: Auditing

Telephone: 012 429 4074

Email: sebasd@unisa.ac.za

Course coordinator

Mrs BM van Wyk

E-mail: vwykbm@unisa.ac.za;

PLEASE NOTE: Personal appointments should be arranged beforehand.

Always have your student number and module code ready when you contact the university!!!

3.2 Department

Department of Auditing:

If you wish to write to us, letters should be addressed to:

The module leader: **AUI2601**

Department of Auditing

PO Box 392

Unisa

0003

Secretary:

Tel: +2712 429 4707

Departmental web page:

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

3.3 College

College related undergraduate enquiries should be directed to: +2712 429 2233/2982 or Casenquiries-undergraduate@unisa.ac.za

3.4 University

To contact the University, you should follow the instructions contained in the brochure, **my Studies @ Unisa**. Remember to have your student number available when you contact the University.

When you contact the lecturer, please do not forget to always include your student number. This will help the lecturers to help you.

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 application 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 email 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 *my Studies @ 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 32695 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.

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 MODULE-RELATED RESOURCES

4.1 Prescribed books

There are no prescribed books for this module. Your study material consists of the study guide and the tutorial letters that you will receive during the semester.

4.2 Joining myUnisa

If you have access to a computer that is linked to the internet, you can quickly access resources and information at the University. The myUnisa learning management system is Unisa's online campus which will help you to communicate with your lecturers, with other students and with the administrative departments of Unisa – all through the computer and the internet.

You can start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the myUnisa orange block. This will take you to the myUnisa website. To go to the myUnisa website directly, go to <https://my.unisa.ac.za>. When you are on the myUnisa website click on the “Claim UNISA Login” at the right-hand side of the screen. You will then be prompted to give your student number to claim your initial myUnisa and myLife login details.

Please consult the brochure *my Studies @ Unisa* which you received with your study material for more information on myUnisa.

4.3 Other resources – printed support material

Because we want you to be successful in this online 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 online 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 or every 10 days to check for the following:

- **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.
- **Do other online activities.** E-tutors are provided in this module and you will be allocated to an e-tutor group on myUnisa. It is important that you interact regularly with your etutor.

We hope that this system will help you to succeed in this online module by giving you extra ways to study the material and practise 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.

Remember, the printed support materials are a back-up for everything that is found online on myUnisa. There are no extra things there. **In other words, you should NOT wait for the printed support material to arrive before you start studying.**

5 HOW TO STUDY THIS MODULE ONLINE

5.1 What does it mean to study fully online?

These modules are taught fully online – this means that it is completely different from some of your other modules at Unisa.

- ***All your study material and learning activities have been designed to be online on myUnisa.*** Although we give you a printed copy of the study material to support your studies, the module is designed to be offered online.
- ***All of your assignments must be submitted online.*** This means that you do all your activities and submit all your assignments on myUnisa. In other words, you **CANNOT** post your assignments using the South African Post Office.
- ***All of the communication between you and the university also happens online*** – by email, in Discussions and through Questions and Answers. You can use all of these ways to ask questions and contact your lecturers. This also means that your lecturers will

communicate with you in the same way – by email, with Announcements, in Discussions and with Questions and Answers.

5.2 The myUnisa tools you will use

All of the information about myUnisa tools is located on the myUnisa website for this module. However, we thought it was important to stress the tools that will be used for your formal Assignments.

- **Assignments:** The assignments will be routed to your lecturer who will mark it. These typed assignments must be submitted using the online **Assignments tool** on myUnisa, as a **pdf** document. The instructions for submitting these assignments are in Unit 0.

6 ASSESSMENT

6.1 Assessment plan

Here is a breakdown of the assignments, as they occur in the semester.

Assignments

Assignments are seen as part of the learning material for this module. As you do the assignments, study the reading texts, consult other resources, discuss the work with fellow students or tutors or do research, you are actively engaged in learning.

The marks you obtain for assignment 01 and assignment 02 will contribute towards your year mark.

Commentaries and feedback on assignments

The solution to Assignment 01 will be provided to you in Tutorial Letter 201 which will only be distributed after the due date of Assignment 01. The solution to Assignment 02 will be sent to you in Tutorial Letter 202 which 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. Both the solution to and the comments on the practice examination paper will be included in Tutorial Letter 202. These will enable you to mark your own assignment.

Assignments are numbered consecutively per module, starting from 01. Only Arabic numerals are used, for example: Assignments 01, 02, 03, and so on.

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

Due dates for assignments

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
01 (Compulsory)	12 March 2015 Unique number: 626951	12 August 2015 Unique number: 654244
02 (Compulsory)	16 April 2015 Unique number: 626988	09 September 2015 Unique number: 654262

Submission of assignments

You may submit written assignments and assignments done on mark reading sheets either by post or electronically via *myUnisa*. Assignments may **not** be submitted by fax or e-mail. For detailed information and requirements as far as assignments are concerned, see the brochure, ***my Studies @ Unisa*** that you received with your study material.

Note: Assignment 02 can only be submitted in PDF format on *myUnisa*.

To submit an assignment via *myUnisa*:

- Go to *myUnisa*.
- Log in with 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.**

PLEASE NOTE: You must submit Assignment 01 in order to be admitted to the examination, while both Assignments 01 and 02 must be submitted because they both contribute to your year mark. No extensions beyond the due dates will be granted by the lecturers for these assignments.

6.2 Year Mark and Final Examination

Your Year Mark for this module

- Weighting in the course: **year mark & exam**

The marks that you obtained for Assignments 01 and 02 will contribute towards your year mark for the module.

Your year mark contributes 20% towards your final examination mark. Students will need a final mark of 50% to pass a module. The final mark is calculated as follows:

10% x mark obtained for compulsory assignment 01 plus

10% x mark obtained for compulsory 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.

Please ensure that both your assignments reach the university **before the due date – late submission of these assignments will result in you not having a year mark.**

THUS:

TO GAIN ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT AT LEAST ONE ASSIGNMENT BEFORE OR ON THE DUE DATE

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

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 2015 and the supplementary examination will be written in October/November 2015. If you are registered for the second semester you will write the examination in October/November 2015 and the supplementary examination will be written in May/June 2016.

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

Previous examination papers

Previous examination papers are available to students on *myUnisa*. Suggested solutions are **not** provided. 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 brochure *my Studies @ Unisa* for general guidance on the examination as well as for your exam preparation.

Assignments

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 my *Studies @ 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 *My studies @ Unisa* when you answer multiple-choice assignments.

Special instructions for answering this assignment

- (1) This assignment consists of 20 multiple choice questions.
- (2) This assignment covers **topics 1 to 3** of the study guide.

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
626951

DATE OF SUBMISSION

First semester: 12 March 2015

QUESTION 1

20 marks

REQUIRED

For each question choose **ONE** option only that you consider to be the most correct answer and then mark the digit that corresponds to the digit of the option which you have selected as your answer on myUnisa or on the mark-reading sheet. Answer the subsections of this question in numerical sequence as follows:

1. 1
2. 3

(1 mark per question)

- 1.1** Which one of the following is **not** a component of the International Professional Practices Framework (IPPF)?
- 1 The definition of internal auditing.
 - 2 The code of ethics.
 - 3 The International Standards for the Professional Practice of Internal Auditing.
 - 4 Internal audit methodology.
- 1.2** Which one of the following alternatives **best** completes the definition of internal auditing as indicated below?
- Internal auditing is an independent, _____(a)_____ and consulting activity designed to add value to and improve an organisation's operations. It helps an organisation to accomplish its objectives by bringing a systematic, disciplined approach, to evaluate and improve the effectiveness of _____(b)_____, control and governance processes.*
- 1 (a) assurance; (b) risk assessment.
 - 2 (a) objective assurance; (b) risk management.
 - 3 (a) objective assurance; (b) risk assessment.
 - 4 (a) assurance; (b) risk management.
- 1.3** Which of the following best describes the purpose of the internal audit activity?
- 1 To monitor the organisation's internal control system for the external auditors.
 - 2 To assist management with the design and implementation of risk management and control systems.
 - 3 To examine and evaluate an organisation's accounting system as a service to management.
 - 4 To add value and improve an organisation's operations.
- 1.4** Which of the following reporting channels is **most likely** to enhance the independence of the internal audit activity?
- 1 When the chief audit executive (CAE) reports directly to the chief executive officer (CEO) and chief financial officer (CFO).
 - 2 When the CAE reports administratively to the CEO and functionally to the audit committee.

- 3 When the CAE reports functionally to the CEO and administratively to the audit committee.
- 4 When the internal audit activity is outsourced and reports to the CFO.

1.5 Which of the following is **not** included in the performance standards?

- 1 Communicating results
- 2 Nature of work
- 3 Quality assurance and improvement programme
- 4 Managing the internal audit activity

1.6 According to the International Standards for the Professional Practice of Internal Auditing (Standards), due professional care calls for...

- 1 detailed audits of all transactions related to a particular function.
- 2 consideration of the possibility of material errors and irregularities during an audit assignment.
- 3 infallibility and extraordinary audit performance when the system of internal control is inadequate.
- 4 testing transactions in sufficient detail to give absolute assurance that noncompliance does not exist.

1.7 According to the internal auditing profession's Code of Ethics, which one of the following alternatives is not a specific principle that internal auditors are expected to apply and uphold?

- 1 Integrity.
- 2 Confidentiality.
- 3 Competency.
- 4 Responsibility.

1.8 The independence of the internal auditor can best be achieved through...

- 1 the level of knowledge and skills the internal audit team applies to carry out an engagement.
- 2 the level of organisational status given to the internal audit activity and the objectivity of the specific internal auditors in carrying out an engagement.
- 3 appropriate supervision of each audit engagement.

- 4 organisational knowledge and the skill of the relevant auditors in carrying out an engagement.

1.9 Internal auditing standards assign the responsibility for providing appropriate audit supervision to the...

- 1 chief audit executive.
- 2 audit supervisor.
- 3 senior auditor.
- 4 audit committee.

1.10 Internal auditors may report that their activities conform with the *Standards*. They may use this statement only if...

- 1 it is supported by the results of the quality program.
- 2 an independent external assessment of the internal audit activity is conducted annually.
- 3 senior management or the board is accountable for implementing a quality program.
- 4 external assessments of the internal audit activity are made by external auditors.

1.11 Which of the following activities is **outside** the scope of internal auditing?

- 1 Evaluating risk exposures regarding compliance with policies, procedures and contracts.
- 2 Ascertaining the extent to which management has established criteria to determine whether objectives have been accomplished.
- 3 Evaluating risk exposures regarding compliance with laws and regulations.
- 4 Safeguarding of assets.

1.12 Ordinarily, those conducting internal quality assessments report to ...

- 1 the board.
- 2 the chief audit executive.
- 3 the internal audit staff.
- 4 senior management.

- 1.13** Internal auditors who fail to maintain their proficiency through continuing education could be found to be in violation of...
- 1 the IIA Code of Ethics.
 - 2 both the International Standards for the Professional Practice of Internal Auditing and the IIA's Code of Ethics.
 - 3 the International Standards for the Professional Practice of Internal Auditing.
 - 4 none of the answers are correct.
- 1.14** The IIA Code of Ethics requires internal auditors to perform their work with ...
- 1 honesty, diligence and responsibility.
 - 2 knowledge, skills and competencies.
 - 3 punctuality, objectivity and responsibility.
 - 4 timeliness, sobriety and clarity.
- 1.15** Which Standards expand upon the other categories of Standards?
- 1 Performance Standards.
 - 2 Implementation Standards.
 - 3 Attribute Standards.
 - 4 All of the above.
- 1.16** Which of the following is an element of authority that must be included in the charter of the internal audit activity?
- 1 Identification of the organisational units where engagements are to be performed.
 - 2 Access to records, personnel and physical properties relevant to the performance of engagements.
 - 3 Access to the external auditor's engagement records.
 - 4 Identification of the types of disclosures that should be made to the board.
- 1.17** Which of the following is the proper organisational role of internal auditing?
- 1 Assist the external auditor to reduce external audit fees.

- 2 Perform studies to assist in the attainment of more efficient operations.
- 3 Serve as an independent, objective assurance and consulting activity that adds value to operations.
- 4 Serve as the investigative arm of the board.

1.18 Which one of the following criteria is often used to judge whether an occupation is a profession?

- 1 Examinations must be set to test the entrants' knowledge.
- 2 An academic degree is a prerequisite for a profession.
- 3 Publishing in professional journals is essential.
- 4 Attendance of the professional association's meetings is a prerequisite.

1.19 Indicate the alternative that correctly completes the following sentence:

The fact that internal auditors customarily have a dual relationship with executive management and the audit committee means that...

- 1 executive management should help the internal auditors by revising and forwarding operational audit reports to the audit committee.
- 2 the internal auditors should audit operations and report directly to the audit committee, without discussing the report with executive management.
- 3 the internal auditors should audit operations, check the accuracy of the report with operational management, and then report to executive management and the audit committee.
- 4 the internal auditors work under the control of the audit committee, but report to the chief operating officer on all operational audits.

1.20 Which one of the following actions performed by an internal auditor based on sensitive information obtained during the conduct of an audit, would be considered a violation of the International Professional Practices Framework (IPPF) for internal auditors or the IIA's code of ethics?

- 1 Disclose the matter to the external auditor without further discussion with the audit manager.
- 2 Inform the audit manager that you will be including the information in your working papers as an audit finding.
- 3 Discuss the matter with the chief audit executive (CAE) without further discussion with the audit manager.

- 4 Resign from the internal audit department and company if further action is not taken on the matter.

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

Semester 1: Compulsory Assignment 02

Instructions:

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

Special instructions for answering this assignment

- (1) This assignment covers the **whole** syllabus that is topics 1 to 9.
- (2) All questions must be answered.
- (3) Only selected questions will be marked.

ASSIGNMENT 02: ESSAY TYPE QUESTIONS

**UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
626988**

DATE OF SUBMISSION

First semester: 16 April 2015

Instructions

- This assignment is a previous examination paper.
- This assignment forms part of your final examination preparation and is a timely opportunity to identify any topics that may be causing you problems.
- Make sure that you answer all the questions. Only a selection of questions will be marked by your lecturers and the marks you receive for these questions will constitute the mark for the assignment. No marks will be given for any questions that have been left unanswered.
- Please assess those questions that have not been marked by your lecturers on your own by comparing your answers with the key for this assignment, which will be provided in Tutorial Letter 202/1/2015.
- Your marks for this assignment will give you an indication of your knowledge of the module and you will be left with enough time to refine your knowledge before the beginning of the examinations.

AUI2601

ASSIGNMENT 02/2015 – First Semester

QUESTION 1

15 marks

REQUIRED

For each sub-question of this question, choose **one** only option that you consider the most correct answer. In your answer book, write down the number of the sub-question, and next to it the letter representing the option you have chosen. Answer the sub-questions in numerical sequence, for example:

1.1 A

1.2 C

Each question is worth 1½ marks.

- 1.1 During an internal audit review of the organisation's accounts payable function, an internal auditor plans to confirm balances with suppliers. What is the source of authority for such contact with parties outside the organisation?
- A. Internal auditing departmental policies and procedures
 - B. The International Standards for the Professional Practice of Internal Auditing
 - C. The organisation's policies and procedures
 - D. The internal audit charter
- 1.2 Which of the following audit committee activities would be of the greatest benefit to the internal auditing department?
- A. Support for appropriate follow-up of recommendations made by the internal audit department.
 - B. Assurance that the external auditor will rely on the work of the internal audit department whenever possible.
 - C. Review and approval of audit programmes.
 - D. Review and approval of all internal audit reports prior to their release.
- 1.3 The best description of the purpose of internal auditing is that it ...
- A. appraises the efficiency and effectiveness of operations.

- B. reviews the means of safeguarding assets and, as appropriate, verifies the existence of such assets.
- C. provides members of the organisation with information needed to discharge their responsibilities effectively.
- D. reviews the reliability and integrity of financial and operating information.

1.4 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. Managing the risk management process.
- C. Appointing consultants to assist management with the risk management process.
- D. All of the above.

1.5 Which one of the following statements best describes management's objective?

- A. Telling people what to do.
- B. Making profits.
- C. Minimising production costs.
- D. Planning, organising, directing and controlling to optimise the utilisation of corporate assets to maximise profits.

1.6 Which one of the following alternatives forms part of the required personal characteristics 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** Which one of the following provisions should be excluded from the internal audit charter?
- A. The right to attend meetings.
 - B. The internal audit department's work schedule, staffing plan and financial budget.
 - C. The independence of the internal auditor.
 - D. The right to obtain information and explanations from all the employees.
- 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** During the course of an internal audit, an internal auditor discovers that a clerk is defrauding the company. Although this is the first fraud ever encountered at the organisation and the organisation has a security department, the internal auditor decides to personally interrogate the suspect. Which rule in the IIA Code of Ethics has most likely been violated?
- A. Lack of competence in the area of fraud examination.
 - B. Failing to show due diligence.
 - C. No violation of the Code of Ethics has occurred.
 - D. Failing to comply with the law.
- 1.10** When reviewing internal audit working papers, an internal audit supervisor's primary responsibility is to determine that ...
- A. Each worksheet is properly identified with a descriptive heading.
 - B. Working papers are properly referenced and kept in logical groupings.
 - C. Working papers adequately support the internal audit findings, conclusions and reports.
 - D. Standard departmental procedures are adhered to with regard to working paper preparation and technique.

(Questions adapted from Vallabhaneni: CIA Exam Review)

QUESTION 2**30 marks**

You are the chief audit executive (CAE) for Inferno Limited, a company listed on the Johannesburg Stock Exchange (JSE). Recently, through your interaction with senior management, you have realised that management is not well informed about the roles and responsibilities of the internal audit function. You consequently compile a presentation and present it to senior management at the next management meeting. After your presentation, some of the managers ask you to explain a number of issues.

REQUIRED**Marks**

- 2.1 Describe the objective of the internal audit activity. **(4)**
- 2.2 The International Professional Practices Framework (IPPF) consists of six (6) elements. Name each element **and** state whether each is mandatory or strongly recommended. (One mark for each element and ½ mark for classification) **(9)**

Element	Mandatory/Strongly recommended

- 2.3 List four (4) key differences between internal and external audit. **(8)**
- 2.4 The chief executive officer (CEO) wants to know why the internal audit section cannot report administratively and functionally to him. Give two (2) advantages of such a reporting line and two (2) disadvantages. **(4)**
- 2.5 One of the senior managers enquires what would happen if a fraud were to be detected and management wanted internal audit to assist with the investigation. Describe the internal auditor's responsibilities when **investigating** fraud. **(5)**

QUESTION 3**35 marks**

The internal audit activity plans to perform an audit on the human resource processes of Inferno Limited. The audit team that will conduct the engagement consists of one internal auditor who is studying towards a degree in internal auditing and one person who has no experience in internal auditing at all. Because of other urgent business, you, as the CAE, will not be available to assist the team during the audit. You have explained the team's duties to them, have instructed them that audit sampling should be used and have also told them that all audit evidence should be **sufficient, competent, relevant and useful**. You also remind them that all audits must be conducted according to the Standards.

The following is a list of the audit activities carried out by the audit team. The activities on the list are in no specific order.

- (a) Gather audit evidence.
- (b) Identify opportunities for making significant improvements to the human resource function's risk management and control systems.
- (c) Distribute the audit report.

- (d) Perform a preliminary survey for the recruitment process to identify the objectives and significant risks and evaluate the resources.
- (e) Complete the audit working papers.
- (f) Compile a list of the auditing engagement's objectives that must be achieved.
- (g) Evaluate the recruitment process based on the risk assessment.
- (h) Determine the audit risk and indicate how it will influence the audit engagement.
- (i) Perform the audit procedures.
- (j) Write the audit report.

REQUIRED

Marks

3.1 The internal audit process consists of the following phases/steps: **(10)**

Determining audit assignment; Planning the internal audit (engagement planning); Performing the engagement (fieldwork) and Audit reporting and follow up.

State in which phase/step of the internal audit process each of the activities listed in the scenario falls.

No	Audit phase/step
(a)	

3.2 Evaluate and conclude on whether you, as the CAE, have complied with the "proficiency" requirements of Standard 1210. Base your answer on the information provided in the question. **(3)**

3.3 List the factors that determine the nature and scope of audit sampling. **(5)**

3.4 The audit team has been instructed to ensure that all the audit evidence they gather should be **sufficient, reliable, relevant and useful**. Define these terms as per the International Standards for the Professional Practice of Internal Auditing (Standards). **(8)**

3.5 Identify the following controls as either **detective, preventative or directive**. **(9)**

- (a) alarms
- (b) personnel access cards
- (c) procedure manuals
- (d) use of carbon paper
- (e) guidelines
- (f) physical stock count
- (g) reconciliations
- (h) company policy
- (i) training programmes

QUESTION 4**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 IPPF, whether each of the scenarios below is permissible or not. Please provide reasons for each of your conclusions.

Your solution should be structured as follows:

	Permissible/not permissible (1 mark)	Reference to IPPF (2 marks)	Reasons (1 mark)
4.1			

- 4.1** During an audit, you overhear someone saying that the chief executive officer (CEO) of the company might be resigning as a result of fraud allegations against him. You know people who have shares in the company so you decided to inform them about the possibility that the share price may decrease. **(4)**
- 4.2** Owing to work and personal constraints, Sandra, a senior internal auditor, has not attended any training for the past two years. **(4)**
- 4.3** 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)**
- 4.4** The human resource manager's children are going to a school to which you would like to send your own children. The school has a long waiting list because it is so popular. The human resource manager offers to use her influence as a board member of the school to help gain admission for your children to this school. **(4)**
- 4.5** The internal audit reports prepared by an internal audit activity have for the past seven years always stated that their internal audit activities are concluded in accordance with the Standards for the Professional Practice of Internal Auditing. Although regular internal assessments have been performed and recorded, the internal audit activity has never been subjected to an independent assessment of its quality improvement programme. **(4)**

(Gleim CIA Review Adapted)

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 *my Studies @ 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 *my Studies @ Unisa* when you answer multiple-choice assignments.

Special instruction regarding the answering of this assignment

- (1) This assignment consists of 20 multiple choice questions.
- (2) This assignment covers **topics 1 to 3** of the study guide.

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
654244

DATE OF SUBMISSION

Second semester: 12 August 2015

QUESTION 1

20 marks

REQUIRED

For each question choose **ONE** option only that you consider to be the most correct and then mark the number that corresponds with the number of the option which you have selected as your answer on myUnisa or on the mark-reading sheet. Answer the subsections of this question in numerical sequence as follows:

1. 1
2. 3

(1 mark per question)

- 1.1** 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 ...
- 1 regulation.
 - 2 control.
 - 3 risk management.
 - 4 governance.
- 1.2** Which one of the following actions performed by an internal auditor based on sensitive information obtained during the conduct of an audit, would be considered a violation of the International Professional Practices Framework (IPPF)?
- 1 Inform the audit manager that you will be including the information in your working papers as an audit finding.
 - 2 Discuss the matter with the chief audit executive (CAE) without further discussion with the audit manager.
 - 3 Resign from the internal audit department and company if further action is not taken on the matter.
 - 4 Disclose the matter to the external auditor without further discussion with the audit manager.
- 1.3** Which of the following alternatives is not one of the four specified functions of management?
- 1 Planning.
 - 2 Reviewing.
 - 3 Organising.
 - 4 Directing.
- 1.4** Which of the following alternatives is true with regard to the overall objective of an internal audit?
- 1 The overall objective of an internal audit engagement is determined by the needs of the organisation's audit committee.
 - 2 The overall objective of an internal audit engagement is determined independently by the internal audit department.
 - 3 The overall audit objective of an internal audit engagement is determined by the needs of management.

4 The overall audit objective will change with each and every internal audit engagement performed and is thus unique to each audit engagement.

1.5 The Institute of Internal Auditors (IIA) has developed the International Professional Practices Framework (IPPF). The IPPF consists of mandatory and recommended guidance. Which of the following options are recommended guidance of the framework?

- i. The Definition of Internal Auditing.
- ii. Practice Advisories.
- iii. IIA Standards.
- iv. Practice Guides.

1 i and iii only.

2 ii and iii only.

3 ii and iv.

4 i, ii, iii and iv.

1.6 Which one of the following is an attribute standard of the International Professional Practices Framework (IPPF)?

1 Nature of work.

2 Independence and objectivity.

3 Resolution of management's acceptance of risks.

4 Performing the engagement.

1.7 Which one of the following statements best describes an internal audit charter?

1 An internal audit charter is optional.

2 It is drafted by the chief executive officer of an organisation.

3 It is a standard document to be used by all internal audit departments.

4 It is uniquely formulated to meet the needs of the organisation.

1.8 Which one of the following actions would **not** affect an internal auditor's independence or objectivity?

1 Continuing on an audit assignment at a division for which, as a result of a promotion, the internal auditor will soon be responsible.

2 Reducing the scope of an audit engagement because of budget restrictions.

- 3 Leading or co-ordinating a task force that develops control procedures for a new distribution system.
- 4 Auditing a purchasing agent's contract drafts prior to their execution.

1.9 To ensure that due professional care has been exercised at all times during an audit engagement, the internal auditor should always ...

- 1 ensure that all financial information related to the audit is included in the audit plan and examined for non-compliance or irregularities.
- 2 ensure that all the audit tests are fully documented.
- 3 consider the possibility of non-compliance or irregularities during an audit engagement.
- 4 communicate any non-compliance or irregularity discovered during an audit engagement to the audit committee.

1.10 Internal auditors often encounter a wide range of potential ethical dilemmas, not all of which are explicitly addressed by the Institute of Internal Auditor's (IIA's) code of ethics. If the auditor encounters such a dilemma, he/she should always ...

- 1 seek counsel from an independent attorney to determine the personal consequences of potential actions.
- 2 choose a course of action that is consistent with the objectives of internal auditing and the concepts embodied in the IIA's code of ethics.
- 3 seek the counsel of the audit committee before deciding on a course of action.
- 4 take action that is consistent with the code of ethics adopted by the organisation, even if such action would not be consistent with the IIA's code of ethics.

1.11 Which one of the following activities falls **outside** the scope of internal auditing?

- 1 Assessing an operating department's effectiveness in achieving stated organisational goals.
- 2 Safeguarding of assets.
- 3 Checking for compliance with laws and regulations.
- 4 Evaluating established objectives and goals.

1.12 Indicate the most correct alternative to complete the following sentence:

A charter for an internal audit department should –

- 1 ensure that the department reports to the highest level of authority in the organisation.
- 2 limit the activities to work that enhances the organisation's profitability.
- 3 establish performance standards for the internal auditors.
- 4 define the department's purpose, authority, and responsibility.

1.13 One of the purposes of the International Standards for the Professional Practice of Internal Auditing (Standards) is to...

- 1 encourage the professionalisation of internal auditing.
- 2 establish the basis for evaluating internal auditing performance.
- 3 establish the independence of the internal audit activity and emphasise the objectivity of internal auditing.
- 4 encourage external auditors to make more extensive use of the work of internal auditors.

1.14 Independence permits internal auditors to render impartial and unbiased judgments. The best way to achieve independence is through

- 1 a dual-reporting relationship.
- 2 supervision within the organisation.
- 3 organisational knowledge and skills.
- 4 individual knowledge and skills.

1.15 An internal audit charter is one of the more important factors positively affecting the internal audit activity's independence. Which of the following is **least** likely to be part of the charter?

- 1 Access to personnel within the organisation.
- 2 Access to records within the organisation.
- 3 The length of tenure of the chief audit executive.
- 4 The scope of the internal audit activities.

1.16 The IIA Rules of Conduct set out in the IIA Code of Ethics ...

- 1 are guidelines to assist internal auditors in dealing with engagement clients.

- 2 describe the behaviour norms expected of internal auditors.
- 3 are interpreted by the Principles.
- 4 apply only to particular conduct specifically mentioned.

1.17 When compared to the objectives of external auditors, the objectives of internal auditors focus more on ...

- 1 communicating findings to the managers of the various business processes and organisational units.
- 2 the substantiation and presentation of financial statements.
- 3 developing and implementing internal accounting controls.
- 4 assisting members of the organisation to meet their responsibilities and the needs of management.

1.18 Indicate the option that completes the following sentence correctly:

The position of the chief audit executive is correctly defined as the...

1. person employed by the organisation who is responsible for the internal audit activity.
2. external provider of internal audit assurance services.
3. person responsible for approving the internal audit charter.
4. auditor general.

1.19 An internal auditor working for a paint manufacturer believed that toxic waste was being dumped in violation of the law. Out of loyalty to the organisation, no information regarding the dumping was collected. The internal auditor ...

- 1 did not violate the Code of Ethics. Loyalty to the employer in all matters is required.
- 2 violated the Code of Ethics by failing to protect the well-being of the general public.
- 3 did not violate the Code of Ethics. Conclusive information about wrongdoing was not gathered.
- 4 violated the Code of Ethics by knowingly becoming a party to an illegal act.

1.20 A major reason for establishing an internal audit activity is to.

- 1 relieve overburdened management of the responsibility for establishing effective controls.
- 2 safeguard resources entrusted to the organisation.
- 3 evaluate and improve the effectiveness of control processes.
- 4 ensure the reliability and integrity of financial and operational information.

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

Semester 2: Compulsory Assignment 02

Instructions:

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

Special instruction regarding the answering of this assignment

- (1) This assignment covers the whole syllabus, that is topics 1 to 9.
- (2) All questions must be answered.
- (3) Only selected questions will be marked.

ASSIGNMENT 02: ESSAY TYPE QUESTIONS

**UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
654262**

DATE OF SUBMISSION

Second semester: 09 September 2015

Instructions

- This assignment is a previous examination paper.
- This assignment forms part of your final examination preparation and is a timely opportunity to identify any topics that may be causing you problems.
- Make sure that you answer all the questions. Only a selection of questions will be marked by your lecturers and the marks you receive for these questions will constitute the mark for the assignment. No marks will be given for any questions that have been left unanswered.

- Please assess those questions that have not been marked by your lecturers on your own by comparing your answers to the key for this assignment, provided in Tutorial Letter 202/2/2015.
- Your marks for this assignment will be an indication to you of your knowledge of the module and you will be left with enough time to refine your knowledge before the beginning of the examinations.

AUI2601

ASSIGNMENT 02/2014 – Second Semester

QUESTION 1

15 marks

REQUIRED

For each subsection of this question, choose **one** alternative only that you consider the most correct answer. Then, as your answer, write down the number of the answer you have chosen 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 most important benefit that the audit committee provides to the internal auditor is to ...
- A. review annual audit plans and monitor audit results.
 - B. protect the independence of the internal auditor from undue management influence.
 - C. approve audit plans and 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 the 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 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:

- 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: **(5)**
- 2.1.1 Assessing whether management's policies and procedures are adhered to.
 - 2.1.2 Conducting control self-assessment training.
 - 2.1.3 Advising during the development of policies and procedures.
 - 2.1.4 Examining whether control procedures are mitigating the risks identified.
 - 2.1.5 Providing advice to management on certain enterprise risk management activities.
- 2.2** List ten (10) personal characteristics required of an internal auditor. **(5)**
- 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. **(5)**
- 2.4** Explain the roles of management and the internal auditor with regard to risk management. **(5)**
- 2.5** Describe management and the internal auditor's responsibilities in the prevention and detection of fraud. **(4)**

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 of their internal auditing training.

Answer the following questions that have been asked 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 correctly.
- 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 lists three individuals who are no longer with the company. Additionally, four individuals are identified who are new in their positions and should have disbursement authority, but who 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 the 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 has conducted an audit on the procurement processes of the organisation. He confirms that suppliers that failed to deliver any goods to the organisation were still paid. The procurement manager threatens to have him fired if he reports this. Because he cannot afford to lose his job, he omits this finding from his report. **(4)**
- 4.2.2** 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, offered to conduct the audit to the best of your ability. **(4)**
- 4.2.3** At your company’s annual award function, you were presented with the “Employee of the year” award. For this, you received a trophy and a cash price 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** In response to a court order an internal auditor discloses confidential, engagement-related information that is potentially damaging to the organisation. **(4)**

(Gleim CIA Review Adapted)

7 CONCLUSION

Do not hesitate to contact your lecturer by email if you are experiencing problems with the content of this tutorial letter or any aspect of the module.

I wish you a fascinating and satisfying journey through the learning material and trust that you will complete the module successfully.

Enjoy the journey!

Desiree Sebastian