

# **Tutorial Letter 201/1/2014**

## **Internal Auditing: Theory and Principles**

**AUI2601**

### **Semester 01**

#### **Department of Auditing**

This tutorial letter contains important information about your module.

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## 1 BRIEFING

This assignment consisted of 20 multiple-choice questions which you had to answer on a mark-reading sheet. The assignment was marked electronically and you should have received a report on the mark that you obtained for the assignment. At this stage we would like to provide the correct answers to the various questions.

The mark you received for this assignment will contribute towards your year mark, and your year mark will contribute 10% towards your final mark for this module.

We trust that you found this assignment interesting and challenging. We hope you are looking forward to learning more about the practice of internal auditing in this module.

Lecturer: AUI2601

## 2 KEY TO ASSIGNMENT 01/2014 (FIRST SEMESTER)

Question	Correct answer	Study guide reference
1.1	2	Study unit 1
This question tested your knowledge of the definition of internal auditing which is as follows: "Internal auditing is an <b>independent</b> , objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, <b>control</b> , and governance processes." Therefore option 2 is correct.		
Question	Correct answer	Study guide reference
1.2	3	Study unit 4.1
Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them appropriately without extensive recourse to technical research and assistance. Internal auditors must be proficient in applying internal audit standards, procedures, and techniques in performing engagements. Therefore option 3 is correct.		
Option 1 is incorrect since internal auditors should be proficient in accounting principles and techniques only if they work extensively with financial records and reports.		
Option 2 is incorrect as internal auditors are required to have an understanding of, not		

proficiency in, management principles.

Option 3 is incorrect as internal auditors ordinarily need not be proficient in marketing techniques.

Question	Correct answer	Study guide reference
1.3	2	Study unit 3

The IIA Code of Ethics, Rule of Conduct 4.3 states, "Internal auditors shall continually improve their proficiency and the effectiveness and quality of their services." Furthermore, IIA Standards 1230 states, "Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development." Therefore option 2 is correct since both IIA Code of Ethics and IIA Standards are violated by failing to earn continuing education credits.

Option 1 is incorrect as the IIA Code of Ethics is also violated.

Option 3 is incorrect as the IIA Standards is also violated.

Option 4 is incorrect as both the IIA Code of Ethics and the IIA Standards would be violated.

Question	Correct answer	Study guide reference
1.4	1	Study unit 3.1.3

Option 1 is correct because nature of work is the Performance Standard 2100.

Option 2 is incorrect because quality assurance and improvement programme is the **Attribute** Standard 1300.

Option 3 is incorrect because proficiency and due professional care is the **Attribute** Standard 1200.

Option 4 is incorrect because independence and objectivity is the **Attribute** Standard 1100.

Question	Correct answer	Study guide reference
1.5	2	Study unit 9.1.2

This question requires you to understand the relevant parties responsible for the coordination of the external and internal auditing services.

Option 2 is correct since according to IIA Standards 2050 “The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.”

Options 1, 3 and 4 are incorrect since none of these parties are responsible for the coordination of the internal and external auditing services according to IIA Standards 2050.

Question	Correct answer	Study guide reference
1.6	3	Study unit 5.2

The question dealt with the internal auditor’s responsibility’s for detecting fraud. Therefore you were required to select the option that does **not** describe the role of the internal auditor in detecting fraud.

Option 3 is correct as the internal auditor has no authority to suspend any employee. His responsibility regarding fraud is as follows: IIA Standards 1210.A2 - “Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.”

Option 1 is incorrect as the internal auditor should have sufficient knowledge of fraud to be able to identify indicators that fraud may have been committed.

Option 2 is incorrect as the internal auditor should evaluate the indicators and decide whether any further action is necessary and whether an investigation should be recommended.

Option 4 is incorrect as it includes options (i) and (ii) which are internal auditor’s responsibilities in detecting fraud.

Question	Correct answer	Study guide reference
1.7	2	Study unit 5.2.

Option 2 is correct as an internal auditor’s responsibilities for **detecting** fraud include evaluating fraud indicators and deciding whether any additional action is necessary or whether an investigation should be recommended.

Option 1 and 3 are incorrect as immediate reporting by the internal auditor to senior management and the board is required only after a sufficient investigation has been made to establish reasonable certainty that a significant fraud has occurred.

Option 4 is incorrect as extended tests to determine the extent of fraud are performed after the fraud has been determined, not suspected.

Question	Correct answer	Study guide reference
1.8	1	Study unit 1.2.2

There are eight elements or criteria that are used to judge whether an occupation is a profession. An examination to test an entrant's knowledge is a criterion and therefore option 1 is correct.

Option 2 is incorrect as receiving a degree is not sufficient to confer professional status.

Option 3 is incorrect as publishing in journals is not a criterion. For upgrading practice, the publishing in journals would be a criterion.

Option 4 is incorrect as attendance is not a criterion. However membership of a professional association, the acknowledgement and recognition of the professional status of the profession and attendance at meetings is a criterion.

Question	Correct answer	Study guide reference
1.9	4	Study unit 2.2

Option 4 is correct. This statement is closely associated with the definition of internal auditing and best describes the organisational role of the internal audit activity.

Option 1 is incorrect as the role of the internal audit activity may reduce the cost of external audit, but this is not its proper organisational role.

Option 2 is incorrect as internal audit activity's role is to assist management and not the board of directors. The chief audit executive reports functionally to the board.

Option 3 is incorrect as the organisational role that internal auditors provide extends further to risk management, control and governance processes.

Question	Correct answer	Study guide reference
1.10	2	Study unit 3.1.2

Option 2 is correct. The interpretation of IIA Standards 1100 states that independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Option 1 is incorrect as competence refers to the principle of applying the knowledge,

skills and experience needed in the performance of internal auditing services.

Option 3 is incorrect as integrity refers to the principle of establishing trust and thus provides the basis for reliance on their judgment.

Option 4 is incorrect as confidentiality refers to respecting the value and ownership of information received by internal audit.

Question	Correct answer	Study guide reference
1.11	1	Study unit 3.1.3

Option 1 is correct. The IIA Standards 1130.A1 states that internal auditors must refrain from assessing specific operations for which they were previously responsible. In the scenario included in the question, the auditor was responsible within a division on which he is now being tasked to continue the audit. This is a possible impairment, and therefore it is the correct option.

Option 2 is incorrect, as reducing the scope owing to budget restrictions is not considered to be an impairment of the internal auditor's individual independence.

Options 3 and 4 are incorrect, as these functions are appropriate for an internal auditor and will not be an impairment of the internal auditor's individual independence.

Question	Correct answer	Study guide reference
1.12	4	Study unit 7.1.4

Although the format and content of the final engagement communications may vary by organisation or type of engagement, IIA Standards 2410 states: "Communications must include the engagement's **objectives**, **scope** as well as applicable **conclusions**, recommendations and action plans." Therefore option 4 is correct.

Option 1 is incorrect because background information and summaries are not required.

Option 2 is incorrect because background information is not required.

Option 3 is incorrect because summaries are not required.

Question	Correct answer	Study guide reference
1.13	3	Study unit 5.1

Option 3 is correct. According to IIA Standards 1000, the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit

charter.

Option 1 is incorrect as the charter is not a standard document that can be used by all internal auditing departments.

Option 2 is incorrect as IIA Standards 1000.C1 states that the nature of consulting services must also be defined in the internal audit charter.

Option 4 is incorrect as the internal audit charter is required as per the IIA Standards 1000. The IIA Standards are mandatory guidance and it is therefore not optional. .

Question	Correct answer	Study guide reference
1.14	3	Study unit 9.1.5

Option 3 is correct as this is one of the responsibilities of the audit committee.

Options 1, 2 and 4 are incorrect as these are responsibilities of the chief audit executive.

Question	Correct answer	Study guide reference
1.15	4	Study unit 6.1.3

The IIA Standards 2100 states, "The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach." Assurance services involve the internal auditor's objective assessment of management's risk management activities and the degree to which they are effective. Therefore option 4 is correct.

Option 1 is incorrect because risk management is a key responsibility of senior management and the board, not the internal auditor.

Option 2 is incorrect because designing and updating the risk management process is a role of management.

Option 3 is incorrect. The design and implementation of controls is the responsibility of management, not internal audit.

Question	Correct answer	Study guide reference
1.16	1	Study unit 7.1.4

The IIA Standards 2200 states that "internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and



**resource allocations**". Therefore option 1 is correct.

Option 2 is incorrect as observations are what are actually found by performing procedures (in the fieldwork). Auditors must not anticipate the results of the work, to do so indicate a lack of objectivity.

Option 3 is incorrect as documenting the economical and efficient use of resources can be done only on the completion of the engagement.

Option 4 is incorrect since it cannot be known in the planning phase whether the planned work will actually be completed in time.

Question	Correct answer	Study guide reference
1.17	3	Study unit 7.1.4

Option 3 is correct as this is the definition of concise information.

Option 1 is incorrect as objective information is fair, impartial, unbiased and a balanced assessment of all relevant facts and circumstances.

Option 2 is incorrect as complete communication lacks nothing that is essential to the target audience and includes all significant and relevant information to support recommendations and conclusions.

Option 4 is incorrect as accurate information is free from errors and distortions and is faithful to the underlying facts.

Question	Correct answer	Study guide reference
1.18	4	Study unit 4.1

Option 4 is correct as Standard 1210 states that "the internal audit activity **collectively** must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities".

Option 1 is incorrect as many skills are needed in internal auditing. For example, computer skills are needed in engagements involving information technology.

Option 2 is incorrect as each internal auditor may not possess all the specialised skills that may be required to perform an internal audit of a specialised field of operation.

Option 3 is incorrect as this would result in inefficiency and the internal audit activity would lose its value.

Question	Correct answer	Study guide reference
1.19	3	Study unit 1.1.3
<p>External and internal audit differ as a result of a difference in objectives. This question required you to select the alternative that described the objectives of internal audit.</p> <p>Option 3 is correct as from the definition of internal auditing it is apparent that the objective of internal audit is to assist management and the board to manage the organisation efficiently, by assisting them in the achievement of the objectives.</p> <p>Option 1 is incorrect as this refers to one of the steps within the internal audit process.</p> <p>Option 2 is incorrect as this is an external audit objective.</p> <p>Option 4 is incorrect as it is management's responsibility to implement controls and not that of internal audit. The internal audit activity will never develop and implement internal controls as part of the internal audit work. This would impact on the internal audit activity's objectivity and independence. As part of the consulting activity internal audit can assist management by compiling internal controls but they will not implement the internal controls.</p>		
Question	Correct answer	Study guide reference
1.20	1	Study unit 3.1.2
<p>Option 1 is correct since the IIA Code of Ethics includes two essential components: 1) Principles and 2) Rules of Conduct that describe the behaviour norms expected of internal auditors.</p> <p>Option 2 is incorrect as the Rules of Conduct are an aid in interpreting the Principles.</p> <p>Option 3 is incorrect as the conduct may be unacceptable or discreditable although not mentioned in the Rules of Conduct.</p> <p>Option 4 is incorrect as the Rules of Conduct provide guidance to internal auditors in the discharge of their responsibility to all those whom they serve. Engagement clients are not the only parties served by internal auditors.</p>		