

Tutorial Letter 101/3/2015

The Internal Audit Process: Specific Audit Assignments And Reporting

AUI3703

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 AUI3703-2015S1/2 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 AUI3703 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 AUI3703 on myUnisa frequently. The website for your module is AUI3703-15-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 AUI3703-15-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 AUI3703

2.1 Purpose

The purpose of this module is to provide students who intend to qualify themselves as internal auditors or who are interested in the processes to be followed when conducting internal audits with the required knowledge, skills and competencies. Students credited with this module will be able to demonstrate detailed knowledge, specific skills and applied competency in conducting specific audit assignments and reporting on the completion of an audit.

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:** Adhere to the International Professional Practices Framework (IPPF) of Internal Auditing when conducting specific assignments, including (but not limited to):
 - the Standards for the Professional Practice of Internal Auditing (Standards),
 - the Practice Advisories,
 - the Code of Ethics.
- **Specific outcome 2:** Consider the significant factors impacting on the conduct of specific assignments.

- **Specific outcome 3:** Conduct specific internal audit assignments according to applicable standards and generally acceptable practice.
- **Specific outcome 4:** Adhere to the International Professional Practices Framework (IPPF) of Internal Auditing pertaining to reporting and follow-up on completed internal audit assignments, including (but not limited to):
 - the Standards for the Professional Practice of Internal Auditing (Standards),
 - the Practice Advisories,
 - the Code of Ethics.
- **Specific outcome 5:** Report and follow up on completion of an internal audit assignment.

3 CONTACT DETAILS

3.1 Lecturer

The primary lecturer for this module is Maud van Wyk.

Department: Auditing

Telephone: 012 429 4712

Email: vwykbm@unisa.a.c.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: **AUI3703**

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

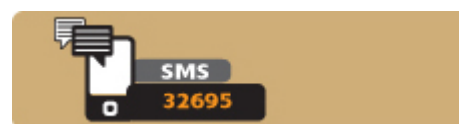
The *my Studies @ Unisa* booklet, which is part of your registration package, lists all the services offered by the Unisa library.

General library catalogue enquiries
 Library web co-coordinator
 Inter-library loans enquiries
 Enquiries about subject databases
 Library information desk
 Enquiries about training presented by the library
 Send a question to the library staff

bib-oasis@unisa.ac.za
bib-web@unisa.ac.za
libr-ill@unisa.ac.za
bib-dbase@unisa.ac.za
bib-help@unisa.ac.za

bib-oplei@unisa.ac.za
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

Your prescribed textbooks for this course for this year are:

- Reding, KF, Sobel, PJ, Anderson, UL, Head, MJ, Ramamoorti, S, Slamasick, M & Riddle, C. [2013]. Internal auditing: assurance & advisory services. The Institute of Internal Auditors Research Foundation. (3rd edition). (Referred to in the text as Reding et al).
- Auditing legislation and standards. LexisNexis Butterworths.

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: 627041	12 August 2015 Unique number: 627207
02 (Compulsory)	16 April 2015 Unique number: 627100	09 September 2015 Unique number: 654219

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

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
627041

DATE OF SUBMISSION

First semester: 12 March 2015

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.

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 1

1.2. 3

(1 marks per question)

- 1.1 Performance objectives should reflect the expectations of an activity's customers regarding its output. A good performance objective is ...
- 1 general.
 - 2 time extended.
 - 3 results centred.
 - 4 quantitative.
- 1.2. Efficiency may be described as the relationship between ...
- 1 actual inputs and planned inputs.
 - 2 planned inputs and planned outputs.
 - 3 actual inputs and actual outputs.
 - 4 actual outputs and planned outputs.
- 1.3. Which one of the following alternatives is not mandatory guidance as prescribed by the International Professional Practices Framework (IPPF)?
- 1 Definition of Internal Auditing.
 - 2 The International Standards.
 - 3 Code of Ethics.
 - 4 Practice Advisories.
- 1.4. Which one of the following warning signs might point to the manipulation of salary information?
- 1 Decline in productivity of labour efficiency.
 - 2 Unreconciled bank accounts.
 - 3 An unusual number of journal entries to correct sales figures.
 - 4 Low material yields and a high degree of wastage.
- 1.5. Which one of the following alternatives is not an element of fraud?
- 1 Misrepresentation.
 - 2 Confidentiality.
 - 3 Intentional.
 - 4 Prejudice.

- 1.6. You are an internal auditor at a manufacturing organisation specialising in the manufacturing and distribution of bedroom furniture. You are currently compiling an audit programme to conduct an operational audit in respect of the plant that manufactures the bedroom furniture. Your audit objective is to evaluate the economy, efficiency and effectiveness of the plant. Which one of the following audit objectives relates more to the assessment of the effectiveness of the plant?
- 1 Determine whether all the activities performed by the plant are meaningful and if any work is duplicated.
 - 2 Determine whether the provision of staff for the plant is adequate and in direct relation to the functions that they have to perform.
 - 3 Determine whether material and services used are of an acceptable quality and are purchased at the best prices.
 - 4 Determine whether the performance of the plant is measured in terms of the objectives and performance criteria formulated for the plant.
- 1.7. Which one of the following alternatives is an example of an application control?
- 1 Maintenance controls.
 - 2 Controls over master file changes.
 - 3 Computer operating controls.
 - 4 Controls over system software.
- 1.8. Which one of the following alternatives is an example of assurance services?
- 1 The assessment that management's policies and procedures are adhered to.
 - 2 Conducting control self-assessment training.
 - 3 Providing advice to management on risk management, control and governance issues.
 - 4 Assisting in developing and drafting policies.
- 1.9. You as the internal auditor must determine which key performance indicators are in use and whether they are appropriate. Which one of the following type of audits will be most suitable?
- 1 Compliance audit.
 - 2 Financial audit.
 - 3 Performance audit.
 - 4 Environmental audit.

1.10 Which one of the following alternatives describes the most important reason for performing a follow-up audit on completion of an operational audit?

- 1 To provide an opportunity for the auditors who performed the operational audit to evaluate the effectiveness of their recommendations.
- 2 To ensure that appropriate action is taken as a result of the reported operational audit findings.
- 3 To document management's actions in response to the internal audit report and to close the audit file within the time limit.
- 4 To ensure that timely attention is given

1.11 Select the alternative that correctly completes the following paragraph:

An internal auditor has completed a risk-based internal audit of the organisation's distribution department and is ready to issue the final operational audit report. The auditee, however, disagrees with the internal auditor's conclusion. The internal auditor should ...

- 1 issue the operational audit report and record his recommendations and reasons for disagreeing.
- 2 withhold issuing the operational audit report until agreement on the disputed issues is obtained.
- 3 perform more work in order to resolve the areas of disagreement, and delay the issuing of the operational audit report until agreement is reached.
- 4 issue the operational audit report and indicate that the auditee has provided a scope limitation that has led to a difference of opinion as far as the conclusions are concerned.

1.12 After the finalisation of a fraud investigation in a certain section, the auditors are requested to assist the section with improvements to policy and procedures. You will best fulfil your responsibility as internal auditor if you ...

- 1 documents the required policy and procedures that have to be followed in the section.
- 2 recommend specific improvements to the policy and procedures.
- 3 monitor compliance with policies and procedures for a year.
- 4 appoint supervisors in the section to review the existing policies and to implement improved procedures.

1.13 An internal auditor recently conducted an internal audit. During the audit a weakness regarding manual payments was identified. The auditor needs to include the weakness identified in the form of a finding in the internal audit report. In order to comply with the internal auditing standards, the internal audit report should include the...

- 1 purpose, scope, results and auditor's opinion.
- 2 criteria, conditions, cause and effect.
- 3 scope, background, findings and recommendations.
- 4 management summary, background, overview, findings, recommendations and conclusions.

1.14 Which one of the following audit procedures is the most appropriate audit procedure to use when one wants to determine the efficiency of a manufacturing plant?

- 1 Obtain evidence that the plant manager has put procedures in place to ensure that the performance objectives set for the plant are achieved and this achievement has been measured.
- 2 Evaluate whether the advanced technology of the manufacturing equipment contributes to better quality products, higher productivity and production outputs, all of which will result in higher income.
- 3 Evaluate the adequacy of staff allocated to the manufacturing plant and determine whether the reporting structure allows for adequate delegation of authority.
- 4 Compare actual production outputs with the approved targets in order to determine whether the plant is meeting expected outcomes.

1.15 Controls that are in place to ensure that the information system (IS) is developed, implemented and maintained are ...

- 1 controls over the input function.
- 2 controls over masterfile changes.
- 3 application controls.
- 4 general controls.

1.16 Which one of the following controls implemented by the organisation refers to application controls?

- 1 Controls over transaction data to ensure validity.
- 2 System development and implementation controls.
- 3 Computer operating controls.
- 4 Business continuity controls.

1.17 An internal auditor recently conducted an internal audit. During the audit a weakness regarding manual payments was identified. The auditor needs to include the weakness identified in the internal audit report. In order to comply with the internal auditing standards, the internal audit report should include the...

- 1 purpose, scope, results and auditor's opinion.
- 2 management summary, background, overview, findings, recommendations and conclusions.
- 3 background, findings and recommendations.
- 4 findings, conclusions, recommendations and corrective action.

1.18 Risk management, control and governance processes may be regarded as effective if such processes are planned and designed in a manner that provides reasonable assurance that...

- 1 all business risks will be eliminated.
- 2 all organisational objectives and goals will be achieved.
- 3 expenses will be minimised.
- 4 all irregularities will be eliminated.

1.19 The Internal Auditing standards are based upon...

- 1 the Statements on Internal Auditing Standards.
- 2 the Internal Professional Practice Framework.
- 3 the Guidance Task Force.
- 4 the Code of Ethics.

1.20 Which one of the following alternatives defines inherent risk?

- 1 The likelihood that the control processes established to limit or manage inherent risk are ineffective.
- 2 The risk that coverage will not address significant business exposures.
- 3 The risk that if a material problem that would affect the conclusion pertaining to an audit objective has occurred, the auditors will not find it.
- 4 The likelihood of a significant loss occurring before taking into account any risk reducing factors.

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

ASSIGNMENT 02: ESSAY TYPE QUESTIONS

**UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
627100**

DATE OF SUBMISSION

First semester: 16 April 2015

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.

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.

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 Which one of the following alternatives is not mandatory compliance according to the international standards for the professional practice of internal auditing (IPPF)?
- A Definition.
 - B Practice advisories.
 - C Code of ethics.
 - D International standards.
- 1.2 Which one of the following activities, performed by an internal audit activity would be most likely to form part of a performance audit?
- A A comprehensive risk assessment was undertaken and a risk profile was developed for the organisation as well as for individual components.
 - B The internal audit activity assisted the organisation in its efforts to obtain an unqualified Auditor's report for the 2013 financial year.
 - C Numerous presentations were made to management and employees of the organisation on corporate governance and fraud awareness.
 - D The internal audit activity facilitated the organisation's preparation of adequate performance measurement criteria.
- 1.3 An internal auditor is assigned to investigate the economy of operations in the manufacturing department. The internal auditor is likely to focus the audit procedures on determining the relationship between ...
- A actual inputs and planned inputs.
 - B actual inputs and actual outputs.
 - C actual outputs and planned outputs.

D planned inputs and planned outputs.

1.4 Quality auditing can be defined as ...

- A conformity and adherence to applicable laws and regulations as well as policies, plans, procedures, contracts and other requirements.
- B looking for evidence to the reliability and integrity of financial information.
- C a team of qualified inspectors conducting a comprehensive examination of a plant to determine whether it is complying with environmental laws and regulations.
- D a systematic approach and independent examination to determine whether quality-related activities are implemented effectively.

1.5 Which one of the following alternatives is an example of assurance services?

- A Conducting control self-assessment training.
- B Providing advice to management on risk management, control and governance processes.
- C The assessment that management's policies and procedures are adhered to.
- D Assisting in developing and drafting policies.

1.6 Which one of the following remarks by the head of an audited section, after completion of an operational audit, can be seen as a specific benefit of operational auditing that was realised during the operational audit.

- A We especially benefited from the internal auditor's assistance in establishing formal aims and objectives for the department, which are in line with the mission of the organisation.
- B The follow-up meeting, where the audit findings were discussed with all the personnel were of great benefit to the department.
- C The involvement of the head of the section as chairman of the audit steering committee, contributed more meaningful and executable recommendations.
- D Management within the department were especially impressed with the professional manner in which the audit was planned, conducted and concluded.

1.7 Which one of the following alternatives does not form part of an operational audit project?

- A Studying the external environment within which an organisation operates.
- B Studying organisational and departmental objectives.
- C Studying financial statements for compliance with accounting disclosure requirements.
- D Studying the physical facilities of an organisation or department.

1.8 Indicate the correct statement.

- A Prevention of fraud includes actions designed to limit the extent of fraud, should it occur.
- B The most important fraud prevention measure is regular interviews between management and operating staff.
- C The primary responsibility for fraud prevention lies with the auditors.
- D Internal auditors should develop and implement internal control measures as a measure of fraud prevention.

1.9 A supplier who delivers incomplete orders and then invoice for full delivery is probably involved in ...

- A misappropriation.
- B embezzlement.
- C management fraud.
- D external fraud.

1.10 Which one of the following alternatives will be performed during the audit planning phase of an Information Systems (IS) audit process?

- A Gather organisational information.
- B Identifying tasks to be performed in the course of an audit.
- C Defined internal control.
- D. Evaluate the five control components.

QUESTION 2

37 marks

Music24 is a radio station, broadcasting throughout South Africa on a daily basis.

You are responsible for performing an operational audit on the different departments within Music24. The two departments that will be included in the operational audit will be:

- Technical department – responsible for procuring all the required electronic equipment.
- Marketing department – mainly responsible for all the advertising rights.

The management team of Music24 recently decided that all the electronic equipment should either be upgraded or replaced, to ensure that Music24 is equipped with the latest technology available.

The technical manager explained that the technical department was only recently established. Previously the procurement of equipment was the responsibility of the finance department, but due to the tremendous growth experienced by Music24, management decided to create a technical department. All new equipment are purchased and approved by the technical department.

You and a team of three auditors will perform the first operational audit on the technical department. You will be responsible for finalising and maintaining the operational audit budget for the project and should determine whether the department is functioning economical, effectively and efficiently.

The chief audit executive (CAE) has requested you to investigate the economical procurement and efficient utilisation of the technical equipment within the department. You are in the process of obtaining additional information on the procedures followed and the processes employed. During this exercise you discover the following:

- All equipment procured is not being used to capacity.
- Two new staff members were appointed to operate the new equipment and there are still two vacant positions.
- Quite a few tasks are being duplicated within the process.

The CAE further requested that after the completion of the performance audit, if you as the internal auditor can assist with the assessment that management's policies and procedures are adhered to. You explained to the CAE that this will not form part of the performance audit but will be classified as assurance services.

REQUIRED

Marks

2.1 Differentiate between assurance and consulting services and provide an example of each.

(5)

2.2 Identify four (4) audit objectives and for each objective describe an audit procedure that may be carried out to determine the effectiveness of the technical department. Please answer in table format.

Audit objective (1½ mark each)	Audit procedure (1½ marks each)
--------------------------------	---------------------------------

(12)

2.3 Briefly describe five (5) qualities and abilities that a successful internal auditor should possess.

(5)

2.4 Describe six (6) audit procedures that could be used to provide assurance with regard to the economical procurement of equipment.

(9)

2.5 List the basic characteristics of good internal audit reporting

(6)

QUESTION 3**25 marks**

The main responsibility of the marketing department is to liaise with companies or individuals who would like to advertise their business or product on radio. This involves “selling” a certain time slot of airtime for advertising.

After an initial meeting with the marketing director the following information was obtained:

- All enquiries regarding advertising are received via email. High volumes of emails are received on a daily basis.
- If enquiries regarding advertising are received telephonically, the details will be captured on email and forwarded to the marketing department.
- It is the responsibility of the marketing department to purchase all brochures and promotional material for all promotional events and sponsorships.

You obtained the following information and documentation:

1. Company-approved performance objectives for the marketing department.
2. The current and previous year's marketing targets.
3. An organogram setting out the personnel and reporting structure within the marketing department.
4. A list of personnel working in the marketing department, their individual positions and job descriptions for each post.
5. Purchasing policy outlining the process flow when purchasing promotional material.
6. List of all surplus promotional items not used or distributed.

The marketing department are concerned regarding system failures due to poor development and implementation.

REQUIRED**Marks**

- 3.1** For each of the items listed above (1 to 6), describe an audit procedure during which you will utilise that specific item. Also indicate whether the purpose of each audit procedure will be to evaluate the efficiency, effectiveness or economy of the plant. Please answer in table format.

Audit Procedure (1½ mark each)	Purpose (1 marks each)	(15)
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- 3.2** What are some of the main problems experienced during system development that could cause system failures? (10)

QUESTION 4**23 marks**

While busy with the operational audit of Music24, the station manager requests that you should assist with an investigation into the receipt and distribution of donations received by the station.

Upon further investigation the following information was obtained:

- John Play, one of the presenters of the morning show recently organised a fund raiser to raise money for cancer awareness.
- Music24 authorised the fundraiser and gave John permission to go ahead with the fund raiser.
- The fund raiser took the form of an auction. People had to pay a R50 entrance fee, which would all be donated to the cancer awareness fund. All entrance fees were paid in cash at the door.
- Various items were donated by companies and individuals that were auctioned off during the night.

After the fund raiser a tip-off was received on the fraud-hotline, explaining that certain discrepancies were noted with the donation of the money, and that Music24 should investigate further.

An investigation was launched into the fund raising project. The following came to light during the preliminary stages of the investigation:

- All fund raiser projects should be approved, but there are no policies or procedures regarding fund raisers in place. According to management they trust their employees fully and therefore they have free range when it comes to fund raisers.
- All cash was given to John, and he took responsibility for the cash.
- It also came to light that not all the electronic equipment that were donated, were auctioned that evening. One of John's friends explained that all the electronic equipment was delivered at John's house. It was the responsibility of John to deliver the equipment to the auction. John's friend mentioned that he assisted John with installing new electronic equipment at his house. When questioned, John explained that he thought it was ok to keep some of the equipment for himself as he organised the whole event, and he felt that he should also be rewarded for organising the event.
- According to one of John's colleagues, John was involved in a similar incident a few months ago regarding money not paid to a beneficiary. No action was taken against John as he undertook to pay the money back out of his own pocket to the beneficiary.

One of Music24's employees further mentioned that she is concerned about management's relaxed attitude and lack of control regarding the distribution of funds raised at various events by different presenters. All responsibility and control are given to the presenters organising the event as management does not want the added responsibility for the distribution of proceeds raised.

REQUIRED

Marks

- | | | |
|-----|---|------------|
| 4.1 | Identify five (5) warning signals that can be observed from the information gathered during the preliminary stages of the investigation. | (5) |
| 4.2 | List five (5) recommendations that management can implement to prevent potential fraud in future. | (5) |

- 4.3 Briefly discuss the factors that motivate people to commit fraud (3)
- 4.4 Indicate how the tasks of the internal auditor during a fraud investigation would differ from the tasks performed during an operational audit of the marketing department. (10)

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
627207

DATE OF SUBMISSION

Second semester: 12 August 2015

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.

QUESTION 1

20 marks

REQUIRED

For each question choose **ONE** option only that you consider 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 Which one of the following comments, made by the head of the department you recently audited, can be seen as a specific advantage of operational auditing?
 - 1 “The closing meeting, where all the audit findings were discussed, really helped us a lot.”
 - 2 “They really helped us to improve our processes by assisting with the setting of goals and objectives that are in line with the mission statement.”
 - 3 “The head of the internal auditing department was really involved in the audit, and this led to realistic findings and practical recommendations being made.”
 - 4 “Management within the department is impressed with the professional way in which the audit was planned, executed and completed.”
- 1.2 Which one of the following alternatives forms part of the completion phase of an Information Systems (IS) Audit?
 - 1 Audit documentation – working papers should include all the documents, flowcharts, correspondence etc.
 - 2 Audit evidence – is obtained to support the final conclusions of the audit.
 - 3 Tests of control – determine the effectiveness of the operation of the internal control system.
 - 4 Evaluation of general and application controls – cover the entire Computer Information System (CIS) environment.
- 1.3 Which one of the following alternatives will make the best contribution to the internal auditor’s assessment of the effectiveness of the expenditure cycle?
 - 1 Division of projects into logically manageable tasks.
 - 2 The performance of unnecessary tasks or duplication of tasks
 - 3 The purchasing policy of the organisation.
 - 4 The extent to which results in the expenditure cycle is being achieved.

- 1.4 You are the internal auditor of a large construction company. You are currently busy with an operational audit of the purchasing department of the organisation. Indicate which one of the following audit procedures would relate to the efficiency of the department.
- 1 Determine whether a trained person is always available to handle purchases on behalf of the purchasing department to avoid delays and backlogs.
 - 2 Ensure that meaningful, realistic and measurable objectives have been set for the purchasing department in respect of profit margins, productivity and purchasing costs.
 - 3 Evaluate the planning of the purchasing department to ensure that such planning is directed at achieving the company objectives.
 - 4 Evaluate the policy of the purchasing department to determine whether the policy provides for the frequent rotation of purchasing personnel.
- 1.5 Specific forms of fraud are identified both in literature and in practice. Which one of the following alternatives is an example of misappropriation?
- 1 Creating false purchase invoices or destroying supplier credit notes.
 - 2 Creating fictitious employees on the organisation's payroll.
 - 3 False claims against suppliers for shortfalls on deliveries and poor quality products.
 - 4 The irregular transfer of goods or money to a fictitious third party
- 1.6 You recently completed an internal audit of the distribution department of a company responsible for distributing newspapers and magazines. A detailed report and summarised audit report were issued. Which one of the following parties is likely to be most interested in the detailed audit report?
- 1 The head of the distribution department.
 - 2 The external auditors.
 - 3 The managing director of the company.
 - 4 The audit committee.
- 1.7 Which one of the following factors would you consider to be the most important in formulating audit procedures?
- 1 The extent of internal audit personnel's skills and training.
 - 2 The audit objectives formulated on the basis of the audit assignment.
 - 3 The personal inputs of the head of the department being audited.
 - 4 Limitations imposed on you, as the internal auditor, regarding actual physical access to certain areas of storage.

- 1.8 Jack Black, the head of procurement, bought his wife a BMW for Christmas and he bought himself a Jaguar after returning from their cruise in the Mediterranean. His lifestyle has changed significantly over the last few months. An extravagant lifestyle and conspicuous consumption may be ...
- 1 a red flag that fraud could be occurring.
 - 2 proof that fraud is occurring.
 - 3 evidence of a worker who works hard and who is enjoying the benefits of this hard work.
 - 4 of no concern to the auditor.
- 1.9 You are an information systems auditor and decide to make use of computer assisted audit techniques (CAATS) during the audit of the payments department. Which one of the following alternatives can be seen as an advantage of CAATS?
- 1 It is technical and very complex for non-IS auditors.
 - 2 Consistent application of audit procedures and techniques.
 - 3 Audit software is costly and cannot be proven to be cost effective.
 - 4 The purchasing department's system and data can be compromised.
- 1.10 Which one of the following alternatives refers to the engagement parties involved in consulting services?
- 1 The person or group making the independent assessment – the internal audit function.
 - 2 The person or group seeking and receiving the advice – the engagement customer.
 - 3 The person or group involved with the process, system or subject matter – the auditee.
 - 4 The person or group relying on the independent assessment – the user.
- 1.11 Which one of the following alternatives best describes the main purpose of the internal audit activity?
- 1 The internal audit activity supports staff members at all levels of the organisation to effectively discharge their responsibilities.
 - 2 The internal audit activity evaluates the economy and efficiency with which resources are employed.
 - 3 The internal audit activity reviews the reliability and integrity of financial and operating information.

- 4 The internal audit activity reviews the methods of safeguarding assets and verifies the existence of such assets.

1.12. Which one of the following factors would you consider to be the most important in formulating audit procedures?

- 1 The extent of internal audit personnel's skill and training.
- 2 The audit objectives formulated on the basis of the audit assignment.
- 3 The personal inputs of the head of the department being audited.
- 4 Limitations imposed on you, as the internal auditor, regarding actual physical access to certain areas of storage.

1.13 Which one of the following alternatives correctly explains the purpose of the performance standards as contained in the International Standards for the professional practice of internal auditing?

- 1 They describe the nature of internal audit activities and provide quality criteria against which performance can be measured.
- 2 They do not deal with the actual execution of internal audits, starting with the overall planning.
- 3 They address the characteristics of organisations and individuals performing internal audit activities.
- 4 They are more relevant to the senior members of the internal audit activity.

1.14 Which one of the following alternatives describes inherent risk?

- 1 The likelihood of a significant loss occurring before taking into account any risk-reducing factors.
- 2 The risk that audit coverage will not address significant business exposures.
- 3 The likelihood that the control processes established to limit or manage risk is ineffective.
- 4 The risk that if a material problem would affect the conclusion pertaining to an audit objective has occurred; the auditors will not find it.

1.15 You have been assigned to the audit of a company's procurement function. The audit objectives developed by your supervisor are to determine whether the procurement function is following the policy and procedures applicable to procurement and is adhering to VAT requirements.

What type of audit would you perform in this situation?

- 1 A fraud audit.
- 2 A financial audit.

3 A compliance audit.

4 An operational audit.

1.16 A toy manufacturer has a performance objective of paying creditors within 30 days of invoice date. Which one of the following alternatives can be seen as a possible performance measure of this performance objective?

1 Number of creditors paid during the month.

2 Number of creditors outstanding 30 days after invoice date.

3 Number of creditors outstanding at month-end.

4 Number of creditors settled in full and amount of discount received.

1.17 The management of Quickbuck requested you as the internal auditor to perform a performance audit on the sales department. Your first step in the performance audit will be to determine management's ...

1 control structures.

2 control objectives.

3 performance bonus structure.

4 business objectives.

1.18 The phrase "Can we do the same for less money?" refers to ...

1 economy.

2 effectiveness.

3 resources.

4 efficiency.

1.19 Which one of the following is the responsibility of the internal audit department?

1 Safeguarding assets.

2 Reviewing compliance with laws and regulations.

3 Drafting and implementing policies and procedures.

4 Formulating the operational goals and objectives to be achieved.

1.20 Which one of the following statements is true?

- 1 Efficiency is the relationship between actual outputs and planned outputs.
- 2 The scope of a comprehensive audit involves the audit of economy, efficiency and effectiveness of operations.
- 3 By reporting findings to the board of directors and the audit committee, the internal auditors can ensure that all their recommendations are implemented.
- 4 Internal auditors should investigate all frauds reported to the audit committee.

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:
654219**

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.

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 Which one of the following activities, performed by an internal audit activity would be most likely to form part of a performance audit?
- A A comprehensive risk assessment was undertaken and a risk profile was developed for the organisation as well as for individual components.
 - B The activity assisted the organisation in its efforts to obtain an unqualified Auditor's report for the 2013 financial year.
 - C Numerous presentations were made to management and employees of the organisation on corporate governance and fraud awareness.
 - D The activity facilitated the organisation's preparation of adequate performance measurement criteria.
- 1.2 An internal auditor is assigned to investigate the economy of operations in a certain section. She is likely to focus her audit procedures on determining the relationship between ...
- A actual inputs and planned inputs.
 - B planned inputs and planned outputs.
 - C actual inputs and actual outputs.
 - D actual outputs and planned outputs.

1.3 Which one of the audit procedures performed during the conduct of a performance audit was aimed at the evaluation of the economy and efficiency with which resources are being utilised within the organisation?

- A Verify the existence and safeguarding of fixed assets.
- B Interview the head of the personnel department to determine whether proper operational standards exist for the organisation.
- C Meet with the external auditors and financial management on the valuation of fixed assets.
- D Check the accuracy of production figures on quarterly reports, for submission to the board of directors.

1.4 Indicate the alternative which correctly completes the following sentence:

The Standards for the Professional Practice of Internal Auditing explicitly requires internal auditors, when they suspect irregularities, to –

- A appoint an independent investigation team to investigate the probable fraud.
- B suspend the suspected employees so that a complete investigation can be carried out.
- C inform the appropriate managers within the organisation thereof.
- D interrogate the suspected employees.

1.5 An employee in the payroll department is contemplating fraud involving the addition of the name of a fictitious employee and the entry of fictitious hours worked. The pay cheque would then be sent to the fictitious employee's home address as it appears on the payroll. The most effective control measure to prevent this type of fraud is to require that –

- A the particulars of all new employees and the number of hours worked be entered on the payroll by the human resources department.
- B a report of all new employees added to the payroll be approved by someone outside the payroll department. Also, a report showing all employees and the number of hours worked, should be sent to the supervisor's department for review.
- C all changes to employee records be approved by supervisors outside of both human resources and the payroll department.
- D the payroll department physically deliver the pay cheques to employees, rather than mailing them.

1.6 Which one of the following statements is true?

- A Efficiency is the relationship between actual outputs and planned outputs.

- B The scope of a comprehensive audit involves the audit of economy, efficiency and effectiveness of operations.
 - C By reporting findings to the board of directors and the audit committee, the internal auditors can ensure that all their recommendations are implemented.
 - D Internal auditors should investigate all frauds reported to the audit committee.
- 1.7 An operational audit is performed to determine the effectiveness of a new purchasing system implemented for a group of chain stores to improve the speed with which products ordered are supplied to stores in the rural areas. Which one of the following audit procedures is most likely to be found in the audit programme for this audit?
- A Extract a sample of receiving documents from different branches and trace these back to the original purchase orders to determine the time elapsed from when the order was placed until the items were received at the branches.
 - B Perform an inventory count at selected branches in the rural areas and determine whether any adjustments to the continuous inventory records are required.
 - C Interview the branch managers in the rural areas and determine their satisfaction with the implementation of the centralised purchasing system.
 - D Perform an analysis of orders according to the different product ranges at the branches in the rural areas, and compare the results with orders for the same products in the suburban branches.
- 1.8 Which one of the following actions describes one of the responsibilities of the internal auditor for the deterrence of fraud in an organisation?
- A Prosecuting perpetrators of fraud.
 - B Evaluating the adequacy of controls to prevent fraud.
 - C Implementing systems to discourage fraud.
 - D Reporting suspected fraud to law enforcement personnel.
- 1.9 Which one of the following alternatives represents a warning sign (red flag) that may point to embezzlement of cash?
- A Lost deposit slips.
 - B Unusual inventory shortages.
 - C Unusual year-end transactions.
 - D Excessive overtime.

1.10 Fraud was recently discovered in the sales department. After finalisation of the fraud investigation, the management of the sales department requested you as the internal auditor to assist them with improving their current policies and procedures. To best fulfil your responsibility as an internal auditor, you should...

- A document and distribute required policy and procedures and ensuring implementation thereof
- B implement specific improvements to the policy and procedures
- C request the supervisor to draft and implement the policies and procedures
- D perform a compliance audit on the department within the next 6 months

QUESTION 2

51 marks

ReadAlot is an online bookstore. Orders from all over the country is placed online and then books ordered delivered via door-to-door courier services.

You are responsible for performing an internal audit on the different departments within ReadAlot. The three departments that will be included in the performance audit will be:

- Administrative department – responsible for processing all orders received via the internet.
- Packaging department – responsible for packing all the books into the boxes and handing the books over to the distribution department.
- Distribution department – responsible for delivering all packages within the required ue dates.

Due to an increase in online shopping recently, ReadAlot's sales increased with 35%, and with the festive season approaching a further increase in sales are expected. The management of ReadAlot requested the internal audit activity to perform a performance audit of the efficiency and effectiveness of the operations of ReadAlot, to ensure that ReadAlot will be able to meet the increase in sales.

Part A

You have been assigned to join a team of three auditors to perform the performance audit on the administrative department. You will be responsible for finalising and maintaining the audit budget for the project and determining the efficiency and effectiveness of the administrative department.

As part of the planning, you have been provided with numerous files containing relevant information such as the mission, performance objectives, key performance indicators and details of order status reports. While reviewing the business plan and mission of ReadAlot you noted, in one of the files containing the minutes of a management meeting, the following key issues:

1. Orders are not always completed on time.
2. 40% of the orders are not completed within the budget, with an overspending on overtime.

3. No procedure or guidelines in place for the administrative department.
4. Targets of the department are not met, the managers noted that the targets set for the department is not realistic. Furthermore, no feedback is given to managers or employees regarding targets being met or not.
5. The approach to setting the targets are not clear.
6. Targets are not measured on a regular basis and there is no indication as to what measurements are used to determine whether the targets are met or not.
7. Targets are not in line with the mission statement of ReadAlot.
8. No detailed plans regarding objectives and targets were communicated to staff.

In planning the audit, the internal auditors decided to arrange interviews with Smart Power's management and managed to obtain the following documents from previous audit files and company records:

1. The organogram setting out the personnel and reporting structure.
2. System flow charts for the order process.
3. Layout flow charts for the process.
4. A list of personnel working in the administrative department, their individual positions and job descriptions for each post.

REQUIRED	Marks
2.1 Discuss the mission of ReadAlot in the context of organisational performance. Elaborate on the relationship between mission and performance objectives.	(5)
2.2 List the steps that you will follow to evaluate the mission statement of ReadAlot.	(6)
2.3 From the information in the scenario, identify and describe five (5) weaknesses that have a direct impact on the effectiveness of the administrative department.	(5)
2.4 Identify five (5) audit techniques that may be used in the performance of this audit and describe how each of them will be used to audit the effectiveness of the administrative department.	(10)
2.5 Formulate ten (10) questions to put to the management of ReadAlot to gain background information on the efficiency of the administrative department.	(10)

Part B

Once an order has been processed by the administrative department it is forwarded to the packaging department. It is the responsibility of the packaging department to pack all orders and then forward the packages to the distributions department.

Initial discussions with the management of the packaging department have indicated that 500 orders are packed per day. It is of the utmost importance to ensure that all orders are ready for delivery as soon as possible as all orders need to be delivered within 24 hours.

The following information was obtained from the manager of the packaging department:

A staff shortage, has hampered the efforts to pack all orders and to get them ready for delivery within 24 hours as specified in the terms of sale. It was further mentioned that for each 24 hours that the orders are delivered late the customer would receive an additional 10% discount on their purchase. Due to the backlog experienced in the packaging department most of the orders are delivered late.

The following additional information was obtained regarding the packaging department:

- There are currently no policies and procedures in place for the packaging department.
- None of the employees are aware of the targets or objectives of the department.
- All procedures within the packaging department is manual as the manager of the department said that he does not want to get involved in new technology or new procedures.
- The current staff of the packaging department is overworked due to the shortage of staff in the department.
- One of the staff members admitted that she feels some of the tasks are being duplicated within the packaging department.

REQUIRED

Marks

- | | | |
|-----|---|------------|
| 2.6 | List at least ten (10) qualities and abilities an operational auditor should possess. | (5) |
| 2.7 | Develop a complete audit finding based on the information obtained from the manager of the packaging department, in which you specifically mention and illustrate in practical ways all the different elements of an audit finding. | (5) |
| 2.8 | From the information provided, identify and describe five (5) weaknesses directly impacting on the efficiency of ReadAlot. | (5) |

QUESTION 3

34 marks

The distribution department of ReadAlot is responsible for collecting all the packed orders at the warehouse and then deliver them within 24 hours to the customers. Due to the increase in sales the personnel in the distribution department are working extra hours and spending a lot of additional hours on the road. All the personnel are extremely busy and spend most of their time on the road, leaving little time for manager-employee interaction and oversight.

Drivers are appointed on a contract basis and are paid a fixed rate per hour. The distribution department does not advertise for drivers as they prefer to use friends and family of current employees as it is a lot quicker to appoint someone. The culture of the company is very trusting with very few rules. A new person starting there only has to sign an agreement that they do have a valid driver's licence. A staff member was fired recently, but although the reason was rumoured to be fraudulent behaviour, nobody really knew why.

Due to the expected increase in sales it became clear that additional delivery vans will have to be purchased for the distributions department. The Chief Audit Executive has requested you to investigate the economical procurement and efficient utilisation of the new delivery vehicles that will be purchased. You are in the process of obtaining background information on the procedures followed and the processes employed when purchasing new vehicles.

REQUIRED

Marks

- | | | |
|------------|--|-------------|
| 3.1 | Identify the weaknesses in the distribution department's operating procedures that would encourage fraudulent behaviour and for each weakness briefly describe why this would be the case. | (10) |
| 3.2 | Describe eight (8) audit procedures that could be used to provide assurance with regard to the economical purchase of the new equipment. | (12) |
| 3.3 | Briefly discuss the factors that motivate people to commit fraud. | (3) |
| 3.4 | Indicate how the tasks of the internal auditor during a fraud investigation would differ from the tasks performed during a performance audit of the distributions department. | (9) |

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!

Maud van Wyk

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