



Tutorial Letter 101/3/2018

THE INTERNAL AUDIT PROCESS: TEST OF CONTROLS

AUI3702

Semesters 1 and 2

Department of Auditing

This tutorial letter contains important information
about your module.

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1 INTRODUCTION

Dear Student

Welcome to the module AUI3702. We shall do our best to make your study of this course interesting and rewarding. You will be well on your way to success if you start studying early in the semester and decide to do your assignments properly.

Students must be registered for a *myLife* email address and must be able to access *myUnisa* to be able to access their study material.

We encourage you to utilise the online learning platform. All the learning material is available on *myUnisa* with useful links to assist you in mastering a perceived difficult subject like internal auditing. In this module you will be guided through the content by working through the learning units either on *myUnisa* or the printed study guide.

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

1.1 To get started on *myUnisa*

Based on a Unisa decision, for this module you will only receive a printed study guide and tutorial letter 101 (this tutorial letter). The other tutorial letters of less than 20 pages are not printed and is electronically available on *myUnisa*. You must be registered on *myUnisa* to be able to access study material, submit your assignments, gain access to the library functions and various learning resources, to “chat” to your lecturer and fellow students about your studies and the challenges that you might encounter, and to participate in online discussion forums, blogs or self-assessments.

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

Go to the website <https://my.unisa.ac.za> and login with your student number and password. Then you will see **AUI3702** in your row of modules, in the orange bar across the top of the webpage.

1.2 How to study this module online

This module is taught online — this means that it is a different experience from some of your other modules at Unisa.

- **This means that all your study material and learning activities are online, on *myUnisa*. Limited printed material will be provided, however you will benefit from utilising the online platform.**
- **Attempt to submit all of your assignments online.** If you submit your assignments online, make sure that you submit them on *myUnisa* in the required format (**PDF**). (Remember submitting your assignments online is **faster and safer** than by post.)

- **This means that most of the communication between yourself and the university also happens online** — by email, in the **Announcements**, and through the Questions and Answers tool. The semester period is very short therefore communicating with you online is also the most effective way.

2 PURPOSE AND OUTCOMES

2.1 Purpose

The purpose of the module is for students to gain knowledge, skills and competence in the testing of controls as part of the internal audit process, based upon the International Professional Practices Framework (IPPF) and other relevant guidelines.

2.2 Outcomes

In the study guide, you will find the detailed learning outcomes for each learning unit.

During the semester, you should:

- Work through your study material using your study guide, make summaries and complete the activities
- Complete the activities with the assistance of the prescribed textbook
- Access internet links in the study guide and participate in the discussion forums
- Complete and submit Assignment 01 and Assignment 02 **before the due dates**. All the compulsory assignments are included in this tutorial letter
- Compare your answers to the assignments with the solutions provided in the tutorial letters on myUnisa
- Prepare yourself for the examination (for examination preparation and technique refer to the **Studies @ Unisa** brochure)

3 LECTURER(S) AND CONTACT DETAILS

3.1 Lecturer(s)

The lecturer responsible for this module and to whom you should direct your enquiries, is:

Ms M Edwards

E-mail: edwarm@unisa.ac.za

Tel: 012 429 6442 / +27 12 429 6442

Course coordinator

Ms BM van Wyk

E-mail: vwykbm@unisa.ac.za

Tel: 012 429 4712/ +27 12 429 4712

PLEASE NOTE: Personal appointments should be arranged beforehand.

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

Please do not hesitate to contact the lecturer(s) by email, telephonically or personally (by prior arranged appointment only), should you experience specific problems regarding the **content of the module**. Please have your study material open online when you contact us. Please note

that enquiries with regards to matters not relating to the **content of the module** (e.g. *myUnisa* or *myLife* access, enquiries in respect of examination dates, examination venues, etc.) must **not be directed to your lecturer** but should be directed to the relevant administrative department. The contact details are available in the **Studies @ Unisa** brochure (www.unisa.ac.za).

3.2 Department

Department of Auditing:

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

The module leader: AUI3702
 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 4211 or Casenquiries-undergraduate@unisa.ac.za

3.4 University

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

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

The contact details are:

E-mail addresses:



- info@unisa.ac.za for general enquiries
- study-info@unisa.ac.za for 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

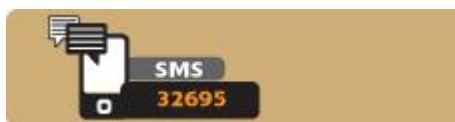
- despatch@unisa.ac.za for study material enquiries
- finan@unisa.ac.za for student account enquiries
- gaudeamus@unisa.ac.za for graduation enquiries
- myUnisaHelp@unisa.ac.za for assistance with *myUnisa*
- myLifeHelp@unisa.ac.za for assistance with myLife email accounts
- aegrotats@unisa.ac.za for 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 **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.

Fax number:



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

Other means of contacting the University are:

Physical address
University of South Africa
Preller Street
Muckleneuk
Pretoria
City of Tshwane

Postal address
University of South Africa
PO Box 392
Unisa
0003

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

4 RESOURCES

4.1 Prescribed books

The following is a list of the prescribed books for this module. NB: this book is essential to pass this module.

- Jackson, R.D.C. & Stent, W.J. *Auditing notes for South African Students 2016* (10th edition). Durban: LexisNexis
- Gowar H & Jackson RDC. 2017. *Graded Questions on Auditing 2018*. Durban: LexisNexis.

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

Prescribed books are available at the university's official booksellers. If you have any difficulties in obtaining books from these bookshops, please contact the Prescribed Book Section **as soon as possible** at telephone number +27 12 429 4152 or e-mail address: vospresc@unisa.ac.za.

Information on the use of and the sources of information available in the Unisa library are detailed in the ***Studies @ Unisa*** brochure.

4.2 Recommended books

There are no recommended books for this module.

4.3 Electronic reserves (e-reserves)

There are no recommended electronic reserves for this module.

5 STUDENT SUPPORT SERVICES

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

Telecentres

Free computer and internet access

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

6 STUDY PLAN

Please use your study guide to work through all the study materials.

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

7 PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There is no practical work for this module.

8 ASSESSMENT

8.1 Assessment criteria

Assignments

Assignments are 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 do research, to ensure that you are actively engaged in learning.

NB: Attempt all your assignments with due care. Incorrect unique numbers, incomplete submissions, and attaching wrong assignments will result in a disqualification to the exam and/or a low semester mark. Make sure that you have proof of submission.

NB: When marking assignment 02 we mark a sample i.e. selected sections. Therefore, make sure that you attempt all the questions. Leaving out a question or attempting a question half-heartedly will cost you good semester marks if that question is selected for marking.

8.2 Assessment plan

Assignments and learning

Assignments assess your progress and learning and must be submitted before the due dates. As you do the assignments, study the reading texts, consult other resources, and discuss the work with fellow students or tutors.

Compulsory assignment

You are required to **submit the compulsory Assignment 01 before the due date** to obtain **admission to the examination**. Admission will be obtained by submitting the Assignment 01 and not by the marks you obtain for it. **No admission will be considered if you did not submit one of these two assignments before the due date.**

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

General remarks

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

10% x mark obtained for compulsory Assignment 01, plus

10% x mark obtained for Assignment 02, plus

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

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

IMPORTANT:

TO GET ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT ASSIGNMENT 01 OR ASSIGNMENT 02 BEFORE THE DUE DATE.

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

Plagiarism

Plagiarism is the act of taking words, ideas and thoughts of others and passing them off as your own. It is a form of theft which involves a number of dishonest academic activities. Read the University's *Policy on Copyright Infringement and Plagiarism* as well.

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

8.3 Assignment numbers

8.3.1 General assignment numbers

Assignments are numbered consecutively per module, starting from 01.

8.3.2 Unique assignment numbers

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

8.4 Assignment due dates

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

Assignment	FIRST SEMESTER Due date if you are registered for the first semester	SECOND SEMESTER Due date if you are registered for the second semester
01 (10 % of year mark)	14 March 2018 Unique assignment number: 830313 Multiple-choice questions.	22 August 2018 Unique assignment number: 848526 Multiple-choice questions.
02 (10 % of year mark)	11 April 2018 Unique assignment number: 817373 Written assessment	12 September 2018 Unique assignment number: 681742 Written assessment

8.5 Submission of assignments

You may submit written assignments and assignments done on mark-reading sheets either by post or electronically via *myUnisa*. We **recommend** students to **submit the assignments electronically via *myUnisa*** (in a **PDF** format) instead of posting them. The onus is on you to prove submission if an assignment is lost.

Assignments posted should be addressed to: (If you are unable to submit it electronically)

The Registrar
PO Box 392
Unisa
0003

To submit assignments using *myUnisa*:

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

8.6 The assignments

8.6.1 Semester 1: Assignment 01

NB: This assignment is due at the beginning of the semester.

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

Special instruction for the answering of Assignment 01

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

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
830313

DATE OF SUBMISSION

First semester: 14 March 2018

PLAGIARISM DECLARATION:

By submitting **AUI3702** assignment number **2**, I declare that:

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

Please note: You do not have to submit the declaration. By submitting any assignment for AUI3702, you automatically declare that you adhere to all the above with regard to the specific assignment.

QUESTION 1

20 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

1. 1
2. 3

(1 mark per question)

Study guide Part A

1.1 What activity does **not** form part of the ethical responsibilities of the internal auditor?

- 1 Promoting the organisation's products.
- 2 Not making him guilty of any acts of misconduct while auditing.
- 3 Not performing acts that are in competition with his employer.

4 Not informing third parties of any confidential information, he obtained during the conduct of an audit.

1.2 Which alternative is an element of internal auditing?

- 1 The basis of all internal audits is a process of independent external appraisal.
- 2 The objective of an internal audit is to assist management to manage the organisation efficiently, by assisting them in the achievement of their objectives.
- 3 The boundaries of an internal audit are that only some of the important activities should be independently examined and evaluated and that only the most important findings must be reported.
- 4 The only purpose of internal auditing is to implement corrective action after errors and frauds were found.

1.3 Which one of the following services is **not** provided to the members of the organisation by the internal auditing department?

- 1 Recommendations.
- 2 Advice/Information/Evaluation.
- 3 Analysis and appraisals.
- 4 Financial statements and budgets.

1.4 The Institute of Internal Auditors, Inc has developed a Professional Practices Framework for internal auditors. Which of the following alternatives is/are included in the framework?

- i. The definition of internal auditing
- ii. Corporate governance principles
- iii. Practice advisories
- iv. The Code of Ethics

- 1 i & iv only
- 2 i, iii & iv only
- 3 i, ii, iii, & iv
- 4 ii and iii only

1.5 Which one of the following actions does **not** constitute a violation of the internal auditing profession's Code of Ethics?

- 1 Investigating senior management's entertainment expense reports after a complaint was received in the complaint box.
- 2 Buying options in a company's shares on the JSE Security Exchange after overhearing a discussion about a possible merger with that company.
- 3 Encouraging your cousin to buy shares in your organisation after hearing that it will soon be taken over by another company.
- 4 Accepting an opportunity from the chief financial officer (CFO) which allows you and your family to spend a weekend at his private game lodge.

1.6 Which one of the following factors will directly influence the organisational status of the internal audit activity?

- 1 The fact that the chief audit executive is a member of a profession.
- 2 The level of responsibility conferred on the internal audit activity within the organisation.
- 3 The internal audit activity operates as an independent department.
- 4 The internal audit activity reports to the chief financial officer.

1.7 At which stage of the audit process is the audit programme written?

- 1 Before performing the substantive procedures.
- 2 After testing the internal controls to determine whether to rely on the controls or not.
- 3 During the planning stage.
- 4 At the end of the audit, when the standard audit programme should be revised for the next audit to ensure coverage of the noted problem areas.

1.8 Which one of the following attributes and/or statements regarding the use of audit working papers do you regard as **inappropriate**?

- 1 They provide a starting point for planning the audit.
- 2 They support the internal auditor's opinion.
- 3 They provide particulars of the composition of amounts disclosed in the annual financial statements.
- 4 They serve as a basis for the client to improve his operating methods.

1.9 Which one of the following is a standard with which audit evidence must comply?

- 1 Materiality, integrity and professionalism.
- 2 Relevance, sufficiency, competence and usefulness.
- 3 Economy, efficiency and effectiveness.
- 4 It must reduce the audit risk.

1.10 Under which step in the internal audit process will one classify *gathering of information*?

- 1 Determine the audit assignment.
- 2 Plan the audit.
- 3 Conduct the audit.
- 4 Write and distribute the audit report.

Study guide Part B

1.11 Which one of the following is the most important element of good corporate governance?

- 1 The audit committee.
- 2 The board of directors.
- 3 The combination of internal and external audit.
- 4 The company's code of ethics.

1.12 Corporate directors, management, external auditors and internal auditors all play an important role in creating a proper control environment. Top management is primarily responsible for ...

- 1 establishing an efficient and effective control environment and specifying general internal controls.
- 2 reviewing the reliability and integrity of financial information and the means used to collect and report on such information.
- 3 ensuring that external and internal auditors adequately monitor the control environment.
- 4 implementing and monitoring controls designed by the board of directors.

1.13 What does the management of the organisation try to ensure through the implementation and maintenance of a system of internal control?

- 1 That the operational efficiency of the organisation is encouraged.
- 2 That the assets and other organisational resources of the organisation are adequately safeguarded and optimally used.
- 3 That the prescribed managerial policy and procedures are adhered to at all times.
- 4 That responsibilities are delegated appropriately.

1.14 An internal auditor is presumed to have knowledge of certain basic business concepts and management functions within the basic business framework. Which alternative is **not** a management function within the organisation?

- 1 Planning.
- 2 Control.
- 3 System evaluation.
- 4 Leading.

1.15 Control as one of the functions of the management of an organisation includes control over all forms of delegated duties and is not merely a managerial aid, but is actually the achievement of efficient and successful management. In the light of the above-mentioned, with which one of the following alternatives is control **not** associated with?

- 1 The utilisation of all physical, mechanical and supervisory resources.
- 2 The grouping together of units, sections or departments with related or reconcilable activities.
- 3 Adherence to managerial policy.
- 4 The delimitation of executive powers in the decentralised and delegated areas of authority.

1.16 Controls should be designed to provided reasonable assurance that ...

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

1.17 Which one of the following alternatives deals mainly with the organisation of the personnel function within the managerial framework of an organisation?

- 1 The personnel department would specify the desired practices to be followed in fulfilling the duties and functions in each of the organisational departments, and would ensure that staff members possess the qualifications and capabilities required for the particular position.
- 2 The personnel department is responsible for defining duties and powers according to seniority for only some approved sections; other sections and departments are responsible for their own.
- 3 The personnel management function need not ensure continuity of recruitment, as this is the responsibility of the individual departments.
- 4 The appointment of suitable staff only for operational tasks within the organisation.

1.18 An exception report for management is an example of which of the following?

- 1 preventive control
- 2 detective control
- 3 corrective control
- 4 directive control

1.19 Select the alternative that correctly completes the following sentence:

Controls are only effective and useful if ...

- 1 they are recommended by internal or external auditors.
- 2 they are developed and implemented in order to achieve a specific objective.
- 3 they are applied to the financial transactions of an organisation.
- 4 they eliminate the possibility that irregularities can occur.

1.20 According to the COSO Internal Control - Integrated Framework, a precondition for risk assessment is the ...

- 1 appointment of a risk manager.
- 2 organisational independence of the internal audit activity.
- 3 establishment of organisational objectives.
- 4 implementation of control procedures over activities.

8.6.2 Semester 1: Assignment 02

Instructions

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

Special instructions for the answering of this assignment

- (1) This assignment covers **Part C** and **Part D** of the study guide and includes long discussion type questions.
- (2) All questions must be answered.
- (3) **Only selected questions will be marked.**
- (4) Where discussion is required, structure your answer in point format, limiting each paragraph to one statement.

ASSIGNMENT 02: MULTIPLE-CHOICE AND ESSAY-TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
817373

DATE OF SUBMISSION

First semester: 11 April 2018

PLAGIARISM DECLARATION:

By submitting **AUI3702** assignment number **2**, I declare that:

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

Please note: You do not have to submit the declaration. By submitting any assignment for AUI3702, you automatically declare that you adhere to all the above with regard to the specific assignment.

QUESTION 1**30 marks****REQUIRED**

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

1.1 1

1.2 3

(1½ marks per question)

Study guide Part C

1.1 With which requirement must every sample extracted for internal audit testing comply?

- 1 The sample must lead to the audit opinion being formulated quicker so as to reduce the internal auditing costs.
- 2 The results of the test must be extrapolated to the whole population based on the theory of probability.
- 3 The sample must be representative of the particular population.
- 4 The sample must be neat, uniform, understandable, reasonable, complete and simple.

1.2 Statistical sampling would be appropriate to estimate the value of an auto dealer's 3 000 line-item inventory because statistical sampling is ...

- 1 reliable and objective
- 2 thorough and complete
- 3 thorough and accurate
- 4 complete and precise

1.3 Sample size ...

- 1 increases with the use of higher confidence levels.
- 2 decreases with the use of higher confidence levels.
- 3 remains unchanged with changes in confidence levels.
- 4 increases with the use of lower confidence levels.

1.4 Which one of the following is the **major purpose** of performing analytical procedures in internal audits?

- 1 To perform additional audit procedures.
- 2 To plan the audit engagement.
- 3 To obtain audit evidence.
- 4 To study relationships among elements of information.

1.5 According to the Internal Audit Standards, the term “risk appetite” means which of the following?

- 1 risk avoidance
- 2 risk limitation
- 3 risk acceptance
- 4 risk spreading

1.6 An auditor prepared a working paper that consisted of a list of employee names and identification numbers as well as this statement: “By matching random numbers with employee identification numbers, 40 employee personnel files were selected to verify that they contain all documents required by company policy 501. No exceptions were noted.”

The auditor did not place any tick marks on this working paper. Which one of the following changes would improve the auditor’s working paper the **most**?

- 1 use of tick marks to show that each file was examined
- 2 removal of the employee names to protect their confidentiality
- 3 justification for the sample size
- 4 listing of the actual documents examined for each employee

1.7 Management has requested an audit of promotional expenses. The sales department has been giving away expensive items in conjunction with new product sales to stimulate demand. The promotion seems successful, but management believes the cost may be too high. Which one of the following audit procedures would be the **least** useful to determine the effectiveness of the promotion?

- 1 A comparison of product sales during the promotion period with sales during a similar non-promotion period.

- 2 A comparison of the unit cost of the products sold before and during the promotion period.
- 3 An analysis of the marginal revenue and marginal cost for the promotion period, compared to the period before the promotion.
- 4 A review of the sales department's reasons for believing that the promotion has been successful.
- 1.8** An internal auditor plans to use an analytical review i.e. ratio analysis to verify the correctness of various operating expenses in a division. The use of an analytical review as a verification technique would **not** be a preferred approach if ...
- 1 the auditor notes strong indicators of a specific fraud involving this account.
- 2 the company has relatively stable operations that have not changed much over the past year.
- 3 the auditor would like to identify large, unusual or non-recurring transactions during the year.
- 4 the operating expenses vary in relation to other operating expenses but not in relation to revenue.
- 1.9** An internal auditor's preliminary analysis of accounts receivable revealed that the accounts receivable turnover rate had increased. Why would this information be important to the manager?
- 1 Relaxation of credit policy should be considered.
- 2 It will influence cash flow, which should be taken into consideration for transactions.
- 3 The cash discount offered had increased.
- 4 The increase was due to an increase in cash sales.
- 1.10** Which one of the following is an audit objective?
- 1 To determine whether inventory on hand is sufficient to meet the projected sales targets.
- 2 To observe the physical inventory count.
- 3 To include information about stock-out situations in the internal audit report.
- 4 To search for the existence of obsolete inventory by computing inventory turnover by product line.

1.11 The **most** persuasive evidence to test the **existence** of newly acquired delivery trucks would be...

- 1 certificate received from specialist third party.
- 2 confirmation letters from management.
- 3 observation of the auditee's procedures.
- 4 a physical examination.

1.12 Which one of the following documents would provide the best evidence that a purchase transaction has actually occurred?

- 1 The supplier's invoice for the procured goods.
- 2 The ordering department's original requisition for the goods.
- 3 The cancelled cheque issued in payment of the procured goods.
- 4 The receiving memorandum (goods received note) documenting the receipt of the goods.

1.13 Audit programmes that test internal controls should?

- 1 Be tailored for the audit of each operation.
- 2 Be generalised to fit all situations without regard to departmental lines and operations.
- 3 Be generalised to be usable at all locations of a particular department.
- 4 Reduce costly duplication of effort by ensuring that every aspect of an operation is examined.

1.14 When assessing the risk associated with an activity, an internal auditor should ...

- 1 determine how the risk should best be managed.
- 2 update the risk management process based on risk exposures.
- 3 design controls to mitigate the identified risks.
- 4 provide assurance on the management of the risk.

1.15 The policies and procedures that help to ensure that management directives are executed and actions are taken to address the risks that threaten the achievement of the organisation's objectives describes ...

- 1 risk assessments.
- 2 control activities.
- 3 control environments.
- 4 monitoring.

1.16 Which one of the following alternatives is **not** a technique used by the internal auditor to obtain audit evidence?

- 1 Observing.
- 2 Assuming.
- 3 Computer-assisted audit techniques (CAATs).
- 4 Investigating.

1.17 An internal auditor has set an audit objective of identifying the existence of personality conflicts within the IT department, which are detrimental to productivity. Which one of the following audit procedures will best meet this objective?

- 1 Inspection of documents.
- 2 Observation.
- 3 Questioning.
- 4 Analytical review.

Study guide Part D

1.18 In an internal audit report, which attribute should the recommendation address?

- 1 Effect.
- 2 Condition.
- 3 Cause.
- 4 Criteria.

1.19 Which one of the following is **not** a major purpose of an audit report?

- 1 Inform
- 2 Get results
- 3 Assign responsibility
- 4 Persuade

THIS INFORMATION IS RELEVANT TO QUESTION 1.20

The following information is extracted from a draft of an audit report prepared upon completion of an audit of the inventory warehousing procedures for a division.

Finding I

Inventory is messy. We recommend that management communicate the importance of orderly inventory management techniques to warehouse personnel to avoid the problems noted earlier, such as locating inventory where needed for production; and incurring unusually large amounts of inventory write-offs because of obsolescence.

1.20 Which one of the following is a major deficiency in Finding I regarding the completeness of the audit report?

- 1 There is no separate section adequately discussing the risks associated with the audit finding.
- 2 The recommendation does not follow from the findings. The recommendation could have been reached without any audit findings.
- 3 The condition for the audit finding is not clearly explained
- 4 The reference to other parts of the audit report citing excessive inventory write-downs for obsolescence is not appropriate. If there is a problem it should all be discussed within the context of the specific audit finding.

QUESTION 2

32 Marks

You have recently been requested to advise a friend of yours on certain aspects of his internal control system for sales and cash in his newly established business "Quick Cash". The business plan is to purchase odd lots of consumer goods from local manufacturers at discounted prices and to sell these from the friend's premises in Fordsburg. Quick Cash will not sell a standard range of products; its range will vary according to what products he can purchase as odd lots. He has conducted extensive research and is confident that he can source a steady stream of consumer products ranging from items of clothing to garden tools to various foodstuffs. The key to success of this business is that he will sell items of good quality at low prices but for cash only – no cheques, no credit cards will be accepted and no accounts will be opened. His marketing research has suggested that the concept will be popular with his target market and that the outlet is likely to be very busy.

He intends to have three check-out lanes and has managed to secure three cash registers at an auction. He does not have the finance available to install sophisticated point-of-sale equipment.

The cash registers he purchased are dual roll cash registers and have the following features:

- Two till rolls in a lockable compartment. The customer receipt is printed off one roll and the details of each sale are recorded on the other. This till roll is retained in the register.
- The register keeps a running total of sales rung-up.
- A process which calculates change to be given to the customer.
- A removable lockable drawer in which cash is held.
- The register records any “overrides” that have taken place on the register e.g. a correction of an incorrect entry by the cashier.
- The receipt produced by the register and the till roll retained in the register record the identity number of the till.

He intends to keep things simple but he will employ the necessary number of people to run the business efficiently. He will be at the outlet most of the day, from where he will source products from manufacturers and manage the business. The shop will be open during normal weekday business hours and on Saturday mornings.

He also intends to employ three till operators and one till supervisor who will also assist with the administrative functions. The three operators will sit at a different check-out lane each day. He expects to employ a bookkeeper as well as the necessary goods receiving personnel/shelf packers.

He will consider appointing other staff members if you believe it is necessary. He has also told you that proper accounting records relating to sales and cash must be kept.

(Adapted from: Graded Questions on Auditing, 2014)

REQUIRED	MARKS
2.1 Identify the two major risks cash based businesses face.	(2)
2.2 Explain to your friend how he can create and maintain a sound control environment in his business.	(10)
2.3 Describe the policies, procedures and control activities which should be in place at Quick Cash over the collection of cash from the cash registers, the recording of cash sales and the banking thereof.	(20)

QUESTION 3 **38 Marks**

Inks Ltd, a large manufacturing company in the printing and stationery sector, has a fully computerised accounting system. The applications are menu driven and are access controlled. One of the modules on the network is “journal entries” and the controls for passing a journal entry are as follows:

1. Write access to the module is restricted to a single clerical assistant and the financial controller.
2. All journal entries regardless of which cycle/account headings are involved, are captured through this module.

3. When an employee requires that a journal entry be passed, e.g. a discount adjustment to a debtor's account, a "Journal Entry Request" (JER) showing the accounts to be debited/credited must be made out and submitted with supporting documentation to one of three senior accounting personnel for authorisation. JERs are numerically sequenced.
4. The senior member of staff authorises the JER (by signing), having scrutinised the supporting documentation, and returns the JER and the supporting documentation to the requester of the journal entry.
5. The supporting documentation is filed and the JER given to the clerical assistant for entry. She captures the journal entries she is given and files the JER in the accounting department's filing room.
6. A transaction file of all journal entries is kept on the computer by numerical sequence as well as a log of the journal entries.

The senior internal audit manager is somewhat concerned about the controls over journal entries and has assessed the risk that unauthorised journal entries could be passed as high. He has decided to conduct a statistically based sample on the journal entries and has asked you, the trainee internal auditor to prepare a document (for discussion with the audit team) listing the ten steps in the sampling exercise, and relating each step to testing the authorisation of the journal entries.

(Adapted from: Graded Questions on Auditing, 2015)

REQUIRED	MARKS
3.1 Based on the information given above, state whether you agree with the internal audit manager's assessment that risk of unauthorised entries is high. Justify your answer by referring to the weaknesses in the system.	(10)
3.2 Prepare the document requested by the internal audit manager. The document must discuss and apply the steps in the sampling process.	(26)
3.3 Indicate, assuming that we carried out the statistical sampling exercise and that our projected deviation rate exceeded our tolerable deviation rate, whether we can justifiably assume that fraudulent journal entries have been passed. Explain.	(2)

---x---

8.6.3 Semester 2: Assignment 01

NB: This assignment is due at the beginning of the semester.

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

Special instruction for the answering of this Assignment 01

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

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
848526

DATE OF SUBMISSION

Second semester: 22 August 2018

QUESTION 1

20 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

- 1.1 1
1.2 3

(1 mark per question)

Study guide Part A

- 1.1 The internal auditor is expected to exercise due professional care when fulfilling his or her duties. Indicate which statement **cannot** be classified under the heading "due professional care".
- 1 To consider the adequacy and effectiveness of the internal controls.
 - 2 To be alert to the possibility of fraud and error.
 - 3 To review every transaction in detail.
 - 4 To consider the cost-effectiveness of performing the audit assignment.

1.2 Which one of the following alternatives correctly summarises the role and activities of the internal auditor with regard to the examination and appraisal of the management (operational) aspects of an organisation?

- 1 Internal auditors examine and evaluate the goals, policy, decisions, standards, procedures and controls of management. The results of this are communicated to management by means of reporting.
- 2 The internal audit department reinforces all systems and controls by ensuring adequacy and application.
- 3 Internal auditors accept responsibility for discovering fraud and errors by reviewing the reliability of records, both administrative and operational.
- 4 It is the internal auditor's responsibility to ensure that management policy, all applicable statutory requirements, and all procedures pertaining to the efficient running of the organisation are being complied with.

1.3 The Code of Ethics describes internal auditors with integrity as ...

- 1 people who respect and contribute to the legitimate and ethical objectives of the organisation.
- 2 people who are prudent in the use of information they acquire while performing their duties.
- 3 people who will not accept anything that may impair their professional judgement.
- 4 people who continuously improve their proficiency and the effectiveness and quality of the work performed by them.

1.4 Which one of the following provisions should **not** be included in the charter of an internal audit activity?

- 1 The right to attend meetings.
- 2 The right to obtain information and explanations from all employees.
- 3 The Code of Ethics of the internal audit activity.
- 4 The independence of the internal auditor.

- 1.5** According to the Standards for the Professional Practice of Internal Auditing, an internal auditor should exercise due professional care by considering the ...
- 1 extent of work needed to comply with the internal audit charter.
 - 2 past occurrence of significant errors, non-compliance and fraud.
 - 3 cost of assurance in relation to potential benefits for the organisation.
 - 4 culture of personal ethics promoted by senior management.
- 1.6** Which of the following conduct violates the **integrity** principle of the Code of Ethics:
- 1 The internal auditors perform a detailed risk assessment and identify the key controls relating to credit sales before they decided on the tests to be performed.
 - 2 An internal auditor is assigned to an audit of controls in the procurement section, which is headed by his father.
 - 3 While auditing the controls over wage pay-outs, an auditor finds that some controls have been circumvented. She discusses her finding as a possibility of fraud with her colleague in the canteen over lunch.
 - 4 The internal auditor uses an unrevised audit programme, which was used three years ago, to conduct an organisation-wide audit on credit sales.
- 1.7** Which of the following alternatives is **not** a specific principle which internal auditors are expected to apply and uphold, according to the Institute of Internal Auditors Code of Ethics?
- 1 Integrity.
 - 2 Responsibility.
 - 3 Confidentiality.
 - 4 Objectivity.
- 1.8** When testing controls, the internal auditor must be free from interference when determining the scope of such testing, the procedures, etc. In order to accomplish this, the internal auditor should report to levels in the organisation that allows it to accomplish its responsibilities. The best reporting structure for internal audit will be...
- 1 Functionally to the audit committee and administratively to the chief executive officer.
 - 2 Administratively to the audit committee and functionally to the chief executive officer.
 - 3 Functionally to the chief audit executive and administratively to the audit committee.

4 Functionally to the audit committee and administratively to the chief audit executive.

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

1 relieve overburdened management of the responsibility of establishing effective controls.

2 safeguard resources entrusted to the organization.

3 ensure the reliability and integrity of financial and operational information.

4 evaluate and improve the effectiveness of control processes.

1.10 An internal auditor engages in the preparation of income tax forms during the tax season. For which of the following activities will the internal auditor most likely be in violation of the IIA Code of Ethics?

1 Writing a tax guide intended for publication and sale to the general public.

2 Preparing the personal tax return, for a fee, for one of the organization's division managers.

3 Teaching an evening tax seminar, for a fee, at a local University.

4 Preparing tax returns for elderly citizens, regardless of their associations, as a public service.

Study guide Part B

1.11 Which of the following are elements included in the control environment described in the COSO internal control framework?

1 Integrity and ethical values, management's philosophy and operating style, and human resource policies.

2 Organisational structure, commitment to competence and planning.

3 Competence of personnel, backup facilities, laws and regulations.

4 Risk assessment, assignment of responsibility and human resource practices.

1.12 Which one of the following persons would **not** be an appropriate member of an audit committee?

1 The firm's vice-president of operations.

2 An academic specialising in business administration.

3 The vice-president of the education committee of the Institute of Internal Auditors.

4 A retired executive of a bank which for many years has been associated with the organisation.

1.13 According to the King IV Report on Corporate Governance, which of the following is **not** the audit committee's responsibility regarding combined assurance?

- 1 Monitoring the appropriateness of the company's combined assurance model.
- 2 Ensuring all the significant risks facing the company are adequately dealt with.
- 3 Monitoring the relationship between the external assurance providers and the organisation.
- 4 Providing an independent assurance on risk management and systems of internal control.

1.14 In combined assurance, which of the following is **not** an external assurance provider?

- 1 Sustainability assurance providers.
- 2 External auditors.
- 3 The risk management function.
- 4 Regulators.

1.15 In organisations, a combined assurance plan needs to be established in order for risks to be controlled. This plan should indicate the level of assurance required, the frequency of such assurance, and how and by whom assurance should be provided. Which of the following is an objective of a combined assurance plan?

- 1 Identify and specify the sources of assurance over the organisation's risks.
- 2 Provide risk management with a framework of the various assurance parties.
- 3 Link risk management activities with assurance activities.
- 4 All of the above.

1.16 All employees in XYZ Corporation have to obtain authorisation from their senior managers before placing an order. This type of control is classified as ...

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

4 directive control.

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

- 1 detective
- 2 corrective
- 3 preventative
- 4 monitoring

1.18 Which of the following is most likely an internal audit role in a less structured governance process?

- 1 Designing specific governance processes.
- 2 Playing a consulting role in optimizing governance practices and structure.
- 3 Providing advice about basic risks to the organization.
- 4 Evaluating the effectiveness of specific governance processes.

1.19 Which of the following controls would prevent the ordering of quantities in excess of an organization's needs?

- 1 Review of all purchase requisitions by a supervisor in the user department prior to submitting them to the purchase department.
- 2 Automatic reorder by the purchasing department when low inventory is indicated by the system.
- 3 A policy requiring review of the purchase order before receiving a new shipment.
- 4 A policy requiring agreement of the receiving report and packing slip before storage of new receipts.

1.20 Which one of the following controls could be used to detect bank deposits that are recorded but never made?

- 1 Having bank reconciliations performed by a third party.
- 2 Consolidating cash receiving points.
- 3 Establishing accountability for receipts at the earliest possible stage in the process.
- 4 Linking receipts to other internal accountabilities such as accounts receivable or sales.

---x---

8.6.4 Semester 2: Assignment 02

Instructions

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

Special instructions for the answering of this assignment

- (1) This assignment covers **Part C** and **Part D** of the Study guide and includes long discussion type questions.
- (2) All questions must be answered.
- (3) **Only selected questions will be marked.**
- (4) Where discussion is required, structure your answer in point format, limiting each paragraph to one statement.

ASSIGNMENT 02: MULTIPLE-CHOICE AND ESSAY-TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
681742

DATE OF SUBMISSION

Second semester: 12 September 2018

PLAGIARISM DECLARATION:

By submitting **AUI3702** assignment number **2**, I declare that:

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

Please note: You do not have to submit the declaration. By submitting any assignment for **AUI3702**, you automatically declare that you adhere to all the above with regard to the specific assignment.

QUESTION 1

30 marks

REQUIRED

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

- 1.1 1
1.2 3

(1½ marks per question)

Study guide Part C

THIS INFORMATION IS RELEVANT TO 1.1 TO 1.6

The internal auditing department has just completed an audit of loan processing and commercial loan account balances for a financial institution. The following are a few excerpts from their working papers indicating potential audit findings:

- I We took a statistical sample of 100 loan applications and determined that only 85 loans were granted.
- II Of the 85 loans granted, we noted that 4 loans should have been reviewed and approved by the loan committee, but were not. Company policy states that all loans must be approved by the committee prior to funding. Each of the 4 loans, however, was approved by the chief operating officer (COO) who indicated it was a competitive loan situation to a new customer and in the best interests of the financial institution to expedite the loan and establish a firm relationship it a growing customer. All of the other loans were formally approved by the loan committee.
- III Of the 81 loans approved by the loan committee, we found 7 where the actual amount loaned exceeded the approved amount.
- IV We noted 3 instances in which loans were made to related groups of companies without an analysis of the total amount of loans made to the controlling entity. There may be statutory limitations on the amount of loans that can be made to any individual controlling organisation.
- V Of the 81 loans approved by the loan committee, we found that 14 contained either insufficient documentation or were not received by the committee in a timely fashion in advance of their meeting. The statistical sample was taken with a 95% confidence level using attribute sampling with a tolerable error limit of 4%.

1.1 Regarding item I only, which one of the following audit conclusions is justified?

- 1 There is 15% deviation rate in total loans processed.
- 2 There is a problem in processing that should be followed up by the auditor to determine why 15 of the loans may have been lost.
- 3 The loans that have been made comply with company procedures while the loans that were not made, do not.
- 4 None of the above.

1.2 Regarding item II, which of the following would be correct?

- a) The sample deviation rate exceeds 4%.
- b) The auditor should examine the nature of the loans approved by the chief operations officer (COO) to see if there is a pattern.
- c) The audit finding should be included in the auditor's report with a recommendation that the loan committee review the loans.

- 1 a) only
- 2 b) and c) only
- 3 c) only
- 4 a), b) and c)

1.3 Assume with regard to item II, the COO asks the loan committee to review the loans on an after-the-fact basis. Assume further, upon subsequent review, the loan committee approves the loans on the after-the-fact basis. Which of the following conclusions would be correct regarding the reporting of the audit finding in the auditor' report?

- a) The sample deviation rate will drop to 0%.
- b) The item should still be reported in the audit report because it wasn't approved in a timely manner in accordance with company policy.
- c) The item should be reported as a non-deviation because subsequent action validated the COO's approach.

- 1 a) only
- 2 b) only
- 3 c) only
- 4 a), b) and c)

1.4 Regarding item III, which one of the following actions would be **inappropriate** on the part of the auditor?

- 1 Examine the loans to determine if there is a pattern of the loans to companies. Summarise amounts and include in the audit report.
- 2 Report the amounts to the loan committee and leave it up to them to correct. Take no further follow-up action at this time and do not include the items in the audit report.
- 3 Follow-up with the COO and include the COO's acknowledgement of the situation in the audit report.
- 4 Determine amount of differences and make an assessment as to whether or not the rand differences are material. If the amounts are not material, not in violation of government regulations, and can be rationally explained, omit the finding from the audit report.

1.5 Regarding item IV, which of the following would be correct?

- a) The deviation rate is under 4%, therefore the finding need not be reported to management and the audit committee.
- b) The auditor should review appropriate regulations and possibly get legal counsel opinion on the finding prior to including the finding in the final audit report.
- c) The auditor should report the finding to the COO who approved the loans and ask for a follow-up report during the audit scheduled next year. No further action need to be taken at this time.
- d) Review a plan by the loan committee to prevent such occurrences in the future and include a summary and analysis of the plan in the final audit report.

1 a) only

2 c) only

3 b) and d)

4 b only

1.6 Regarding item V, which one of the following conclusions/audit actions is appropriate?

1 There is no audit finding since the loan committee approved all of the loans.

2 Before issuing a final audit report, the auditor should investigate to determine the reasons for the lack of documentation and timely submittal to the loan committee and include that analysis in the report.

3 The auditor should include the audit findings in the report only if the auditor is to determine the cause of the findings.

4 Both 2 and 3 are correct.

1.7 Which one of the following documents would provide the best evidence that a purchase transaction has actually occurred?

1 Cashed cheque issued in payment of the procured goods.

2 Ordering department's original requisition for the goods.

3 Receiving memorandum documenting the receipt of the goods.

4 Supplier's invoice for the procured goods.

1.8 The auditor wants to understand the actual flow of data regarding cash processing. The most convincing evidence would be obtained by which one of the following?

- 1 Reviewing the systems flowchart.
- 2 Performing a “walk-through” of the processing and obtaining copies of all documents used.
- 3 Reviewing the programming flowchart for evidence of control procedures placed into the computer programs.
- 4 Interviewing the senior accountant.

1.9 The auditor is concerned with the overall valuation of inventory. Rank the following sources of audit evidence from **most** persuasive in addressing the assertion as to the valuation of inventory.

- I Calculate inventory turnover by individual product.
- II Assess the net realisability of all inventory items with a turnover ratio of 2.0 or less by interviewing the marketing manager as to the marketability of the product.
- III Calculate the net realisable value (NRV) of all inventory products (using audit software to calculate NRV based on the selling price) and compare NRV with cost.
- IV Take a statistical sample of inventory and examine the latest purchase documents (invoices and receiving slips) to calculate the inventory cost.

- 1 I, II, III, IV
- 2 I, IV, II, III
- 3 IV, I, III, II
- 4 II, III, IV, I

1.10 The auditor wishes to test the assertion that all claims paid by a medical aid company contain proper authorisation and documentation, including but not limited to the validity of the claim from an approved doctor and an indication that the claim complies with the claimant’s policy. Which one of the following is the **most** appropriate audit procedure?

- 1 Select a random statistical sample of all policyholders and examine all claims for the sampled items during the year to determine if they were handled properly.
- 2 Select a sample of claims filed and trace to documentary evidence of authorisation and other support documentation.
- 3 Select a sample of claims denied and determine that all claims denied were appropriate. The claims denied file is much smaller and the auditor can obtain greater coverage with the sample size.
- 4 Select a sample of paid claims from the claims/cash disbursement file and trace to documentary evidence of authorisation and other supporting documentation.

1.11 Which one of the following procedures would provide the most relevant evidence to determine the adequacy of the allowance for doubtful accounts receivable?

- 1 Confirmation of the receivables.
- 2 Analysis of the following month's payments on the accounts receivable balances outstanding.
- 3 Test the controls over the write-off of accounts receivable to ensure that management approves all write-offs.
- 4 Analyse the allowance through an aging of receivables and an analysis of the current economic data.

1.12 Which one of the following audit procedures would provide the **least** relevant evidence in determining that payroll payments were made to bona fide employees?

- 1 Reconcile time cards in use to employees on the job.
- 2 Examine cancelled cheques for proper endorsement and compare to personnel records.
- 3 Test for segregation of the authorisation for payment from the hire/fire authorisation.
- 4 Test the payroll account bank reconciliation by tracing outstanding cheques to the payroll register.

1.13 An auditor performs an analytical review of a division's operations and notes the following:

Current ratio – increasing
Quick ratio – decreasing
Number of days sales in inventory – increasing
Sales – constant
Current liabilities - constant

From this, the auditor can conclude that:

- I The company has produced less product this year than last year.
- II Cash or accounts receivable have decreased
- III The gross margin has decreased

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

1.14 An auditor must weigh the cost of an audit procedure against the persuasiveness of the evidence to be gathered. Observation is one audit procedure that involves cost/benefit trade-offs. Which of the following statements regarding observation as an audit technique are correct?

- I Observation is limited because individuals may react differently when being observed.
- II When testing financial statement balances, observation is more persuasive for the completeness assertion than it is for the existence assertion.
- III Observation is effective in providing evidence on how the company's processes differ from that specified by written policies.

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

1.15 Which one of the following represents the **most** significant risk in the payroll cycle?

- 1 The distribution of payroll costs to the various service organisation is not verified by the payroll supervisor.
- 2 The payroll clerk responsible for verifying the accuracy of pension plan allotments, is also responsible for correcting errors related to this processing.
- 3 Due to unexpected employee retirements, a system of job rotations was not adhered to during the year.
- 4 Additions and changes to the payroll are not initiated by the Human resources department.

1.16 An internal auditor would trace copies of sales invoices to shipping documents in order to determine that?

- 1 Sales that are billed were also shipped.
- 2 Customer shipments were billed.
- 3 Shipments to customers were also recorded as receivables.
- 4 The subsidiary accounts receivables ledger was updated.

1.17 An audit working paper is complete when?

- 1 The audit objective has been met.
- 2 Operational activity describing the essential basis of the audit has been included.

- 3 Condensation and careful summarisation of detail is present.
- 4 Working papers are properly indexed and cross-referenced.

Study guide Part D

THIS INFORMATION IS RELEVANT TO 1.18

The following information is extracted from a draft of an audit report prepared upon completion of an audit of the inventory warehousing procedures for a division.

Finding I

We observed that receiving reports were not filled out when the receiving department became busy. Instead, the receiving manager would fill out the reports after work and forward them to accounts payable. There is a risk that all items received might not be recorded, or that failing to initially record might result in some items being diverted to other places. During our tests we noted many instances in which accounts payable had to call to receiving to obtain a receiving report. We recommend that receiving reports be prepared.

1.18 Which one of the following indicates a major deficiency in Finding I related to the completeness of the audit report?

- 1 The factual evidence for the audit finding is not given.
- 2 The cause of the problem is not defined.
- 3 The risk is presented in an over dramatic fashion.
- 4 The recommendation is incomplete.

1.19 A recommendation in a final engagement communication should address what attribute?

- 1 Cause.
- 2 Statement of condition.
- 3 Criteria.
- 4 Effect.

1.20 Ordinarily, what source of information should most affect the internal auditors conclusions?

- 1 External.
- 2 Inquiry.
- 3 Oral.

4 Written.

QUESTION 2

26 Marks

You are a member of the internal audit team of MakeaBrake Ltd, a company which manufactures braking systems for trucks and cars. The company has a staff of 400 hourly paid employees who are spread over the ten cost centres which make up the entire process of manufacture.

The number, grade and category of employees varies from cost centre to cost centre; some centres, such as quality control, have as few as 10 employees the majority of whom are skilled, whilst others may have as many as 70 employees, the vast majority of whom will be unskilled.

Each cost centre is controlled by a foreman. Hours worked are recorded using clock cards and a conventional timing device. The foremen authorise all overtime for their cost centre.

Engagements, dismissals and grade wage rates (which vary considerably from grade to grade) are handled by human resources in conjunction with the foremen and union officials, where necessary.

Wage earners are only paid for hours clocked, i.e. if an employee is ill for a period, he is not paid. (An independent "sick leave" system is in operation). No wage payouts are conducted, weekly wages are paid directly into employees' bank accounts by electronic funds transfer.

The company's computerised payroll contains the following information:

1. Employee number and name
2. Cost centre
3. Grade and category (skilled/unskilled)
4. Normal and overtime hours worked
5. Gross earnings
6. PAYE deduction
7. UIF deduction
8. Metalworkers Union deductions (compulsory)
9. Net earnings
10. Bank account number
11. SARS tax reference number
12. Identity number.

The internal audit team's plan for the audit of wages is to select a base wage period which is comprehensively audited and then to perform analytical procedures for selected other wage periods comparing those periods to the base period. The base period for the current year's audit has been selected and you have been requested by your senior to select a sample from the base wage period payroll for audit.

The sample will be used to:

1. assist in determining whether any fictitious workers appear on the payroll; and
2. determine whether the figures on the payroll for the wage period selected are valid and accurate.

He further informs you that he does not require you to select a statistical sample, a well thought out non-statistical sample will be sufficient. You have general audit software which is compatible with the client's system available to you.

(Adapted from: Graded Questions on Auditing, 2015)

REQUIRED	MARKS
2.1 Discuss the factors you would consider in deciding on the size of the sample you will select.	(5)
2.2 Indicate whether the population from which you will select your sample, will be all wage earners on the payroll (masterfile) or only wage earners who actually worked during the wage period selected as the base wage period, i.e. excluding employees who were absent from work. Justify your answer.	(3)
2.3 Using the information from the above scenario describe the audit procedures you will carry out on the employees selected for testing in respect of:	
2.3.1 whether they are fictitious; and	(12)
2.3.2 normal and overtime hours worked to comply with your senior's request.	(6)

QUESTION 3

24 Marks

You are the newly appointed financial manager of The Shoebox (Pty) Ltd, which operates a chain of 20 large retail shoe stores in and around Port Elizabeth, selling on a cash only basis.

The stores are controlled from a central head office and all inventory is issued to the stores from a central warehouse. All inventory deliveries to stores are made by The Shoebox (Pty) Ltd's own delivery vans.

An analysis of the most recent branch accounts revealed that the average gross profit margin for the 20 stores was 51% but that five stores reported margins below 20%.

You approached the managers of the stores in question and the company internal auditor and they all ascribed the poor margins to weak internal control systems which enables theft in particular, to go undetected. Their explanation for this, with which you agreed, is that the internal control system has not kept up with the rapid growth of the company. You therefore decided to design internal controls to improve the control over branch inventories.

For a number of reasons, it is not feasible to computerise branch activities, although all processing at head office is computerised.

The stores are staffed by a branch manager, a cashier and between 2 and 5 sales assistants (depending on the size of the store). The company does not wish to change this. All the branches' inventory is kept either on display or in storerooms at the back of the shop. All inventory items are coded. A cash sales invoice, which indicates the item code and description, is made out for each pair of shoes sold. No inventory records are kept at the branches.

Due to the nature of the stores clientele, the company introduced a "down payment scheme". This enables a customer to purchase shoes over six months by making payments when they

are able to. The selected shoes are put aside and only once the six payments have been made are the shoes handed over to the customer. Internal controls over this scheme are particularly poor.

(Adapted from: Graded Questions on Auditing, 2015)

REQUIRED

MARKS

3.1 Using the information from the above scenario design an internal control system for the control of inventory under the following headings:

- | | |
|--|------------|
| 3.1.1 Despatch from central warehouse to stores | (8) |
| 3.1.2 Physical control over inventory at stores | (8) |
| 3.1.3 The “down payment scheme”. | (8) |

QUESTION 4

20 Marks

You have recently been appointed as a junior internal auditor at Bits & Bobs (Pty) Ltd. To prepare for your job interview you did some desktop research on the company and found that a leading business magazine rated Bits & Bobs (Pty) Ltd as the leading retailer in its field. The journalist evaluated the performance and short-term liquidity ratios of 90% of the companies in the same industry and found Bits & Bobs (Pty) Ltd to be the most successful. The company is a retailer that sells spare parts for small electrical appliances.

On your first day at Bits & Bobs (Pty) Ltd, one of the internal audit managers informs you that in accordance with the internal audit plan, an internal audit of the revenue and receipts’ cycle for the period 1 April 2016 to 31 March 2017 is scheduled to commence within the next week and that you have been assigned to the audit. The internal audit manager has compiled the following narrative description of the cycle:

- The company receptionist is responsible for opening the daily incoming mail. All the orders received from customers are placed in a box marked “Incoming Orders”. The box is then sent to the senior warehouse clerk who initiates the collection of the items ordered.
- Some customers fax their orders directly to the senior warehouse clerk prior to sending their orders through the mail. The company does not accept telephonic orders – when customers phone to place an order they are requested to either fax or submit a hardcopy order.
- Sales are only made on credit. No cash sales are permitted.
- On receipt of the customer orders/faxes, the senior warehouse clerk makes a photocopy of each. He files the originals alphabetically (by customer name) in a file. He divides the photocopies of orders roughly into two piles and hands a pile to each of the junior warehouse clerks who, among other duties, are responsible for collecting the ordered items from the shelves in the warehouse.

REQUIRED

Marks

- 4.1 In respect of the revenue and receipts cycle of Bits and Bobs (Pty) Ltd as & described in the scenario above, identify **four (4)** weaknesses and indicate the
- 4.2 business risks (4.2) related to each weakness.

Structure your answer to question 3.1 as follows:

4.1	Weakness (4)	4.2	Business Risk (6)
		Format =(1)	

(11)

- 4.3 Based on the risks identified in 4.2 above, formulate the audit objectives for the audit of the revenue and receipts cycle.

(9)

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8.7 Other assessment methods

No other assessment methods are used.

8.8 The examination

Requirements for admission to the examination

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

The examination period

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

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

Previous examination papers

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

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

9 FREQUENTLY ASKED QUESTIONS

The ***Studies @ Unisa*** brochure contains an A–Z guide of the most relevant study information. We also posted a number of frequently asked questions on ***myUnisa***.

10 SOURCES CONSULTED

Only the prescribed textbook has been consulted.

11 IN CLOSING

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

12 ADDENDUM

There are no addendums to this tutorial letter.