

Tutorial letter 101/3/2018

THE INTERNAL AUDIT PROCESS: Specific Audit Assignments and Reporting

AUI3703

Semesters 1 & 2

Department of Auditing

IMPORTANT INFORMATION:

- Please activate your *myLife* email address and ensure you have regular access to the *myUnisa* module site for AUI2601.

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1 INTRODUCTION

Dear Student

Welcome to the module AUI3703. 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.

You must be registered for a myLife e-mail address and register on myUnisa to be able to access your study material, submit assignments, gain access to the Library functions and various learning resources, download study material, “chat” to your lecturers and fellow students about your studies and the challenges you encounter, and participate in online discussion forums.

Tutorial letters will be posted to students. However, 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 version.

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 are 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 e-mail address, as all your official correspondence regarding this module will be sent to your myLife address and not your private e-mail address. Please consult the *Study @ Unisa* publication for more information on the activation of your myLife e-mail address as well as obtaining access to the myUnisa module site.

Go to the website <https://my.unisa.ac.za> and log in with your student number and password. You will see **AUI3703** 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.** 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 e-mail, in the discussion forums and through the **Questions and Answers** tool. The semester period is very short; therefore, communicating with you online is the most effective way to cover all the learning material.

2 PURPOSE OF THE MODULE FOR THIS MODULE

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 LECTURER(S) AND CONTACT DETAILS

3.1 Lecturer information

Your lecturer(s) for this module:

Course coordinator
Ms BM van Wyk

You may contact her in the following ways:

Tel: +27 12 429 4712
 E-mail: vwykbm@unisa.ac.za

Please do not hesitate to contact the lecturer(s) by e-mail, 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 regard 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 department. The contact details are available in the *Study @ 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: **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

If you need to contact Unisa about matters not related to the content of this module, please consult the brochure *my 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:



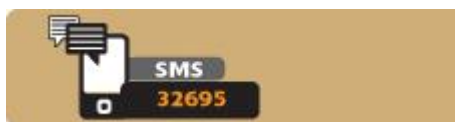
- info@unisa.ac.za for general enquiries
- study-info@unisa.ac.za for application and registration-related enquiries (prospective and registered students)
- international@unisa.ac.za for international students (registration-related enquiries)
- assign@unisa.ac.za for assignment enquiries
- exams@unisa.ac.za 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 *my Studies @ Unisa* booklet, which is part of your registration package, lists all the services offered by the Unisa library.

General library catalogue enquiries	bib-oasis@unisa.ac.za
Library web co-coordinator	bib-web@unisa.ac.za
Inter-library loans enquiries	libr-ill@unisa.ac.za
Enquiries about subject databases	bib-dbase@unisa.ac.za
Library information desk	bib-help@unisa.ac.za
Enquiries about training presented by the library	bib-oplei@unisa.ac.za
Send a question to the library staff	bibrefq@unisa.ac.za

SMS numbers:



Send an SMS to 32695 for more information on how to contact Unisa via SMS (only for students within the borders of South Africa). Students will receive an auto-response SMS with the various SMS options. Standard SMS rates apply.

Students can also SMS enquiries directly to:

43578 for applications and registrations*

43584 for assignments*
 43584 for examinations*
 43579 for study material*
 31954 for student accounts*
 43582 for *myUnisa* and *myLife**

* The SMS number is only for students residing in South Africa. International students are urged to make use of the e-mail address info@unisa.ac.za.

Fax number:



Fax enquiries to +2712 429 415

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 semester are:

- LexisNexis. 2012. Auditing: Legislation and Standards. First edition. LexisNexis.
- Kurt F Reding. 2013. Internal Auditing: Assurance & Advisory Services Year Published. 3rd Edition. IIA Research Foundation. This book can be purchased from the Institute of Internal Auditors' (IIA) Bookstore. You are welcome to contact the IIA at either (011) 450 1040 or www.iiasa.org.za

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

Please note:

It is **essential** that you have the **prescribed textbooks at your disposal**. We suggest that **you try to obtain the books as soon as possible**.

4.2 Recommended books

There are no recommended books for this module.

4.3 Electronic reserves (e-reserves)

The Companies Act 71 of 2008 and the Companies Regulations of 2011 and the King IV Report on Corporate Governance are available electronically.

4.4 Library services and resources information

For brief information go to: <http://www.unisa.ac.za/static/myunisa/Content/documents/study-at-Unisa2017-brochure.pdf>

For more detailed information, go to the Unisa website: <http://www.unisa.ac.za/>, and click on Library.

For research support and services of personal librarians, go to:
<http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=7102>.

The Library has compiled numerous library guides:

- Find recommended reading in the print collection and e-reserves - <http://libguides.unisa.ac.za/request/undergrad>.
- Request material - <http://libguides.unisa.ac.za/request/request>.
- Postgraduate information services - <http://libguides.unisa.ac.za/request/postgrad>.
- Finding, obtaining and using library resources and tools to assist in doing research - http://libguides.unisa.ac.za/Research_Skills.
- How to contact the Library/find us on social media/frequently asked questions - <http://libguides.unisa.ac.za/ask>.

5 STUDENT SUPPORT SERVICES

For student support services, you are referred to the *Study @ 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 those listed are for your own cost e.g. printing, photocopying, etc. For more information on the telecentre nearest to you, please visit www.unisa.ac.za/telecentres.

6 STUDY PLAN

You are responsible for pacing yourself; that means that you should spread your studies evenly throughout the semester.

Also use the *Study @ 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 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, you are actively engaged in learning.

Compulsory assignment

You are required to **submit Assignment 01 and Assignment 02 before the due date**. Admission will be obtained by submitting Assignment 01 or Assignment 02 and not based on 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, but is also available on myUnisa.
- (b) The assignments 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 assignment (number 01 and/or 02) 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 Assignment 01, plus

10% x mark obtained for Assignment 02

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. A student requires a final mark of 50% to pass a module.

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.

my Studies @ Unisa Disciplinary Codes (2011) is given to all students at registration. Students are advised to study the Code, especially Chapter 3: 1.18 and 1.19. Also, please read the University's Copyright Infringement and Plagiarism Policy.

All your assignments must be your own work. You will receive 0% for your whole assignment if it's deemed that plagiarism was committed in any part of the assignment and you may also be subject to disciplinary proceedings by the University.

Everyone must obtain the required skills to ensure that you will be able to make a valuable contribution in the workplace.

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

8.2 Assignment numbering

General assignment numbers

Assignments are numbered consecutively per module, starting from 01.

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.

8.3 Due dates for assignments

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
Assignment 01 (10 % of year mark)	12 March 2018 Unique assignment number: 706076 Multiple-choice questions	13 August 2018 Unique assignment number: 831159 Multiple-choice questions
Assignment 02 (10 % of year mark)	9 April 2018 Unique assignment number: 691972 Written assessment	10 September 2018 Unique assignment number: 823214 Written assessment

8.4 Submission of assignments

You may submit written assignments and assignments done on mark-reading sheets either by post or electronically via myUnisa. We strongly **recommend** that students **submit the assignments electronically via myUnisa** (in **PDF**) instead of posting them.

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.

Assignments posted should be addressed to: (**only** if you are **unable** to submit it electronically)

- The Registrar
- PO Box 392
- Unisa
- 0003

Important: By submitting your assignment you confirm that you accept and will adhere to the terms of the plagiarism declaration included in paragraphs 8.5.2 (Semester 1) and 8.5.4 (Semester 2) respectively. Please note:

- If you are found to be in violation of the plagiarism declaration you will receive 0% for the assignment.
- If you copied **all or a portion** of your assignment from someone else, both you and the person you copied from will receive 0% for the assignment.

- If you worked together in a study group, remember that you still have to submit your **own work**, written in your **own words**. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration and you will receive 0% for the assignment.
- The **plagiarism declaration** holds you accountable for completing your assignment on your own.

8.5 Assignments

8.5.1 Semester 1: *Compulsory Assignment 01*

NB: This assignment is due on 12 March 2018.

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

Special instructions for answering Assignment 01

- (1) This assignment consists of 20 multiple-choice questions.
- (2) This assignment covers all the topics of the module.
- (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:
706076**

DATE OF SUBMISSION

First semester: 12 March 2018

PLAGIARISM DECLARATION:

By submitting AUI3703 assignment number 01, 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 AUI3703, you automatically declare that you adhere to all the above with regard to the specific assignment.

QUESTION 1**20 marks****REQUIRED**

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

1.1 1

1.2 2

Each question counts 1 mark.

1.1 The purpose of the standards include all of the following EXCEPT for...

1. establishing the basis for the measurement of internal audit performance.

2. guiding the ethical conduct of internal auditors.
3. stating basic principles that represent the practice of internal auditing.
4. fostering improved organisational processes and operations.

1.2 According to the Standards, which of the following must the internal audit manager think about when considering appropriate due care while planning an assurance engagement?

1. The opportunity to cross train internal audit staff.
2. The cost of assurance in relationship to potential benefits.
3. Job openings in the area that may be of interest to internal auditors assigned to the engagement.
4. The potential to deliver consulting services to the auditee.

1.3 You as the internal auditor are responsible for the financial audit of Big Time Ltd a distributions company. You and the chief financial officer (CFO) are best friends. You learn that the audit will focus on critical contract negotiations and that the CFO might be replaced. You pass this information onto your friend. Which principle of the IIA's code of ethics has been violated?

1. Integrity.
2. Objectivity.
3. Confidentiality.
4. Privacy.

1.4 Which one of the following is NOT mandatory guidance as presented by the International Professional Practices Framework (IPPF)?

1. Definition of internal audit.
2. The international standards.
3. Code of ethics.
4. Practice advisories.

1.5 An internal auditor has set an engagement objective of determining whether mail room staff is fully utilized. Which one of the following engagement techniques will best meet this objective?

1. Inspection of documents.

2. Observation.
3. Inquiry.
4. Analytical review.

1.6 Which of the following statements is true?

1. Effectiveness is the relationship between planned inputs and actual output.
2. Economy is the relationship between planned inputs and actual inputs.
3. Efficiency is the relationship between planned output and actual output.
4. Effectiveness is the relationship inputs and actual inputs.

1.7 Which of the following statements is correct regarding the deterrence of fraud?

- I The primary means of deterring fraud is through an effective control system initiated by management
 - II Internal auditors are responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy of the control system
 - III Internal auditors should determine whether communication channels provide management with adequate and reliable information regarding the effectiveness of the control system and the occurrence of unusual transactions
1. I only
 2. II only
 3. I and II only
 4. I, II and III

1.8 Which one of the following best describes an auditor's responsibility after noting some indicators of fraud?

1. Expand activities to determine whether an investigation is warranted.
2. Report the possibility of fraud to top management and ask how to proceed.
3. Consult with external legal counsel to determine the course of action to be taken .
4. Report the matter to the audit committee and request funding for outside specialists to help investigate the possible fraud.

- 1.9** Internal auditors and management have become increasingly concerned about computer fraud. Which one of the following control procedures would be least Important in preventing computer fraud?
1. Program change control that requires a distinction between production programs and test programs.
 2. Testing of new applications by users during the systems development process.
 3. Segregation of duties between the applications programmer and the program librarian function.
 4. Segregation of duties between the programmer and the systems analyst.
- 1.10** Ntombi found a purchase invoice that was made out to LotsOfStuff (Pty) Ltd which was very similar to the name of a large supplier LotsOfStuffs Ltd. What step should she take next?
1. Look through all the transactions for the period to see how many other purchase invoices for LotsOfStuff (Pty) Ltd exists.
 2. Mention it to her colleague to make her aware that there seemed to be "something fishy going on".
 3. Find out who the purchasing manager is on the account and ask his colleagues if he has been acting suspiciously lately.
 4. Ask the purchasing manager "what the case is with this invoice"?
- 1.11** The internal audit activity should be...
1. risk based.
 2. materiality based.
 3. variance based.
 4. compliance based.
- 1.12** Which of the following activities are not presumed to impair the objectivity of an internal auditor?
1. Recommending standards of control for a new information system application.
 2. Drafting procedures for running a new computer application to ensure that proper controls are installed.
 3. Performing reviews of procedures for a new computer application before it is installed.

4. All of the above.

1.13 Assuming that the internal auditing staff possesses the necessary experience and training, which one of the following tasks is the most appropriate for an internal audit staff member to undertake?

1. Substitute for the accounts payable supervisor while they are on sick leave.
2. Determine the profitability of alternative investment acquisitions and select the best option.
3. As part of an evaluation team, review vendor accounting software controls and rank according to exposures.
4. Participate in an internal audit of the accounting department shortly after transferring from the accounting department.

1.14 An internal auditor fails to discover an employee fraud during an assurance engagement. The non-discovery is most likely to suggest a violation of the IPPF if it was the result of...

1. failure to perform a detailed review of all transactions in the area.
2. determination that any possible fraud in the area would not involve a material amount.
3. determination that the cost of extending procedures in the area would exceed potential benefits.
4. assuming that the internal controls in the area were adequate and effective.

1.15 In evaluating the effectiveness and efficiency with which resources are employed, an internal auditor is responsible for...

1. determining the extent to which adequate operating criteria have been established.
2. verifying the existence of assets.
3. reviewing the reliability of operating information.
4. verifying the accuracy of asset valuation.

1.16 Internal auditors perform both assurance engagements and consulting engagements. Which one of the following alternatives would be classified as an assurance engagement?

1. Examining whether control procedures are mitigating the risks identified.

2. Conducting control self-assessment training.
3. Assisting in developing and drafting policies.
4. Providing advice to management on risk management, control and governance issues.

1.17 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...

1. actual inputs and planned inputs.
2. planned inputs and planned outputs.
3. actual inputs and planned outputs.
4. actual outputs and planned outputs.

1.18 Which statement best describes the relationship between INHERENT risk and insurance premiums?

1. They are positively related in that the higher the inherent risk, the higher the insurance premium.
2. They are negatively related such that the lower the inherent risk the lower the insurance premium.
3. There is no relationship between inherent risk and Insurance premiums.
4. They are inversely related such that the lower the inherent risk, the higher the insurance premium.

1.19 You are considering using CAATs to audit the purchases department. However, your review of the general controls has shown that there are weaknesses in the system. Should you continue using CAATs?

1. Yes, the CAATs can help identify missing data and measure the extent of the problem.
2. No, because the controls around the system are insufficient the data is unreliable.
3. Yes, because the audit plan says to use CAATs on the audit.
4. No, because frequent management override has made the data meaningless.

1.20 The increasing usage of Cloud storage has increased which one of the following risks?

1. That information may be intercepted and stolen.

2. Transaction processing may be interrupted.
3. Incomplete information is used by management for decision-making.
4. Employees have increased access to information that they don't need in order to perform their tasks.

---X---

8.5.2 Semester 1: Compulsory Assignment 02 (if student did not submit Assignment 01)

Instructions

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

Special instructions for answering this assignment

- (1) This assignment covers the whole syllabus.
- (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.
- (5) You are reminded that your assignments must be your own work.

By submitting your assignments, you confirm that you accept and will adhere to the terms of the **plagiarism declaration**. Please note:

- If you are found to be in violation of the declaration, you will receive 0% for Assignment 02.
- If you copied **all or a portion** of your assignment from someone else (including tutors, online study group, etc.), both you and the person(s) you copied from will receive 0%. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration.

This declaration holds you accountable for completing your assignment **on your own**.

PLAGIARISM DECLARATION:

By submitting AUI3703 assignment 02, 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 AUI3704 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

ASSIGNMENT 02: ESSAY-TYPE QUESTIONS

**UNIQUE ASSIGNMENT NUMBER FOR THE FIRST SEMESTER:
691972**

**DATE OF SUBMISSION
First semester: 9 April 2018**

QUESTION 1**24 Marks**

Pump Champ (Pty) Ltd is a manufacturer of industrial pumps. As an internal audit senior you were requested to review the general controls at Pump Champ (Pty) Ltd. The report which resulted in the request for the review was presented to you and contained, inter alia, the following information:

The company employs three computer technicians. They are responsible for ensuring that the company's network functions satisfactorily. The technicians report to Jill Clinton, the financial controller. However, she does not interact very much with the technicians, as she is, by her own admission, not strong on computer technology. The technicians are responsible for making programme changes as they see fit, training new staff members to use the company's computerised system, operating the help desk and managing the database. The three technicians are all on the same employment grade and generally work well as a team allocating the various tasks amongst themselves. The three technicians are located in a general office in the accounting section in which the network servers and various other pieces of computer equipment are located.

Jill Clinton is the senior financial employee in the company. There are two executive directors and one non-executive director but all three these individuals are from a manufacturing background and have little interest in the financial/administrative side of the business which is left up to Jill Clinton.

All employees at Pump Champ (Pty) Ltd are given access to the network. Factory personnel can access the network from two terminals in the staff canteen if, for example they want to send e-mails or browse the internet during tea or lunch breaks. To get into a particular application the employee must enter a unique password. Controls over passwords are as follows:

- With the help of one of the technicians, the employee accesses a "new password file" which is resident on the system. A list of two hundred four letter passwords then appears on the screen and the employee must select one password by "clicking on" it. If a password has already been taken, it appears in bold italics and cannot be selected. A new list of passwords is produced every six months and employees must select a new password using the same procedure. Passwords of staff who have left the company are also invalidated at this time. The password file is encrypted and only the three technicians, all of whom have root access/super user access, can access the password file. This password application software was written by one of the three technicians.

Other supplementary access controls such as shut down after three access violations, time out facilities, and access logs are in operation. The company has a fire wall in place and

makes use of anti-virus software. There is a suitable disaster recovery plan and back up strategies appear to be effective.”

REQUIRED

Marks

1. Discuss the weaknesses in the general controls of Pump Champ (Pty) Ltd based on the information given above and by referring to each general control. **(24)**

QUESTION 2

18 marks

Dem Bones, a radiology practice in Cape Town has 15 branches at hospitals and doctor's practices in the area, some of which are only 3 kilometres apart. All bookings are managed separately by each individual practice.

The services provided by Dem Bones include:

- X-rays
- Mammograms
- Bone Density testing
- CAT and PET scans.
-

You investigated the number of patients that were seen daily at three different locations that are within 6 kilometres from each other.

	Capacity / Day	LK Hospital			LVP Hospital			RM Hospital		
Day:		M	T	W	M	T	W	M	T	W
Mammograms	15 or 23*	22	15	23	14	16	10	10	10	10
Bone Density	15	12	10	5	10	12	10	5	2	3
CAT and PET scans	10	11	9	11	8	10	10	6	5	7

In order to keep the machines operational, each machine is required to undergo a daily maintenance routine, but this is missed if there are too many patients waiting. Last month the PET scan machine was down for 3 days at LK Hospital because of lack of maintenance and the hospital patients were not being able to get the scans in hospital.

The machines that do the tests are imported and extremely expensive at over R5 million each. Dem Bones' management would like to ensure that the use of the machines is maximised before committing to new purchases.

2.1 Match the following statements to the correct element of an audit finding:

- A. Regular daily maintenance on the machine has not been carried out due to high demand.
- B. Business worth R40 000 was lost during the 3 days that the machine was not operating.
- C. The Service Level Agreement between Dem Bones and the hospital is for a 99% availability of the machine.
- D. The PET scan machine was down for repairs for 3 days.
- E. Encourage non-urgent, out of hospital users to make an appointment with the under-utilized machine at RM Hospital just down the road.
- F. Install a centralized booking function for appointments that will allow the patient to get the earliest appointment near their location. **(6)**

2.2 Define efficiency, effectiveness and economy in the context of a performance audit very expensive solar equipment is stored in the warehouse. **(6)**

2.3 Formulate **four (4)** audit procedures that could be used to determine the efficient utilisation of resources in the processes at Dem Bones. *Include the procedures that you performed to obtain the information about the number of patients seen per day.* **(6)**

QUESTION 3

19 marks

You as the internal audit manager of Solar Express are also responsible for the audit of the information system (IS) department. The management of Solar Express recently explained that they are in the process of upgrading their current information system (IS). During the meeting you explained that controls are the responsibility of management and that management should ensure effective and efficient controls through adequate planning, organising and directing.

Management furthermore requested the following assistance from you as the internal auditor

- 1 Provide advisory services regarding the new upgraded system and the controls that should be in place.
- 2 Assess the design adequacy and operating effectiveness of the business processes and controls.
- 3 Educate process owners and employees about fundamental governance, risk and control concepts.

You briefly listed the following controls that could be implemented when upgrading the current system:

1. The line manager should approve all application program changes.
2. Employees are forbidden to eat/drink at their work stations.
3. Backup copies of all masterfiles should be stored offsite.
4. Masterfiles should be kept under the supervision of an independent person.
5. Management should review exception reports on a regular basis.
6. Certain controls will be embedded in the application program code and applied by the computer.

One of the Junior IS auditors wanted to know whether computer-assisted audit techniques (CAATS) would be used during the audit of Solar Express's IS department.

REQUIRED

- 3.1** Briefly differentiate between assurance engagements and consulting engagements and for each of the requests listed in 1 to 3, indicate whether it will form part of an assurance or consulting engagement **(6)**
- 3.2** CAATs should be applied correctly during the audit process. Describe the audit functions that CAATs can best be used for during the audit process. **(6)**
- 3.3** For each of the controls listed in 1 to 7 above, indicate whether they are general controls or application controls. **(7)**

QUESTION 4

11 marks

Required:

Discuss which of the IIA Standards and / or Code of Ethics principles and rules the situations below refer to. Give reasons for your answer.

- 2.1.** Ntombi Qwelke, CIA, was approached by a departmental manager to sign a statement reflecting expenses incurred by the company. The statement was to be used to obtain a reduction in taxes. As this was not part of the audit plan and she was busy, she glanced briefly at it, checked the additions and signed as having been checked by internal audit. The statement contained items that were not valid expenses. **5 marks**
- 2.2.** Precious McBride, CIA, has been working at the Reserve Bank on investigating currency fixing at major banks in the country. She knows that news of this will result in lower share prices of the banks and sells her shares in the banks that are being investigated before the news is made public. She donates her gains to a fund providing bursaries to students at university. **3 marks**
- 2.3.** One of your auditing staff members left his company laptop in his car. During the night the car had been broken into and the laptop stolen. Because of the nature of internal audit there was some highly confidential client information stored on the computer and the audit information stored on the laptop represented over one hundred hours of audit time which was now lost. **3 marks**

QUESTION 5

29 marks

You are the internal audit manager of Solar Express, a solar company responsible for supplying and installing solar geysers and various other solar products

Due to the increase in the demand for solar geysers, Solar Express's sales have increased by more than 55%. Further increases in sales are expected. Management recently requested you to perform a performance audit on the effectiveness, efficiency and economy of the installations department, to ensure that the installations department will be able to keep up with the increase in demand.

During initial meetings with the management team of the installations department, the following information was obtained regarding the installations department:

- All installation requests are received from the sales department on a daily basis.
- Once an installation request has been received a work order form is completed and a technician is allocated to the installation requests.
- All installations should be completed within 24 hours.
- Once an installation is completed the work order form is signed off by the manager

The following was noted when observing the allocation process:

1. Work is not allocated fairly between all the technicians, some technicians receive five to six installation jobs per day while others have been idle for a few days.
2. Certain documents are not completed in time and not all documents are forwarded to the various departments.
3. There are currently four vacant positions in the department.
4. Targets set for the installations department are not realistic or adequate.
5. There is surplus stock of geysers on hand.
6. There is no purchasing policy in place.
7. There is no indication of completion times for the installation orders.
8. There is no method of measuring the achievement of results.

REQUIRED

Marks

- 5.1** Formulate six (6) audit objectives that could be used to provide assurance with regard to the efficiency of the installations department. **(9)**
- 5.2** For each of the statements (1 to 8) made above, indicate whether it relates to effectiveness, efficiency or economy and formulate an audit procedure for each of the statements that you can use to complete the audit. **(20)**

Present your answer in a tabular format

# of Statement	Efficiency, Economy/Effectiveness	Audit Procedure
1.		

---X---

8.5.3 Semester 2: Compulsory Assignment 01

NB: This assignment is due on 13 August 2018.

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 instructions for answering Assignment 01

- (1) This assignment consists of 20 multiple-choice questions.
- (2) This assignment covers all the topics of the module.
- (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:
831159**

**DATE OF SUBMISSION
Second semester: 13 August 2018**

PLAGIARISM DECLARATION:

By submitting AUI3703 assignment number 01, 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 AUI3703, you automatically declare that you adhere to all the above with regard to the specific assignment.

QUESTION 1

20 marks

REQUIRED

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

1.1 A

1.2 B

Each question counts 1 mark.

- 1.1** An auditor used generalised audit software to select a statistically representative sample of payments from an organisation's bank account during the year. The auditor vouched all of the payments in the sample to properly approved supporting documentation and noted that all payments were made by their due dates. Based on this information, the auditor can conclude that...
1. bank statements were reconciled to the organisation's books.
 2. paid invoices were properly approved and documented throughout the year.
 3. controls to ensure timely payment of invoices are working as intended.
 4. both B and C.
- 1.2** Which one of the following would provide the least security for sensitive data stored on a notebook computer?
1. Encrypting data files on the notebook computer.
 2. Using password protection for the screensaver program on the notebook computer.
 3. Using a notebook computer with a removable hard drive.
 4. Locking the notebook computer in a case when not in use.

- 1.3** To minimise the likelihood of unauthorised editing of a production program, job control language and operating system software can best be accomplished, by which one of the following?
1. Database access reviews.
 2. Compliance reviews.
 3. Good change control procedures.
 4. Effective network security software.
- 1.4** Which one of the following alternatives is NOT an example of general controls?
1. System software controls.
 2. Controls over transaction data.
 3. Computer operating controls.
 4. Business continuity controls.
- 1.5** Which one of the following is a risk that is higher when an electronic funds transfer (EFT) system is used?
1. Improper change control procedures.
 2. Unauthorised access and activity.
 3. Insufficient on-line edit checks.
 4. Inadequate backups and disaster recovery procedures.
- 1.6** The following came to your attention while working through the reporting file: "The above situation was due to the fact that the person in charge of the assets did not exercise proper control over the receipt of the equipment". Which element of an audit finding does this statement represent?
1. Criteria.
 2. Cause.
 3. Effect.
 4. Recommendation.
- 1.7** You are the internal auditor for Plantland. Plantland specialises in distributing various plants to different nurseries. You are conducting an operational audit on the

distribution process of Plantland. You believe that the process can be improved, but the management team is resistant to change. Which technique can be used to best overcome the managers' resistance to change?

1. Involving the managers in the operational audit and subsequent decision-making.
2. Interviewing each manager individually to discuss his or her concerns.
3. Reporting the problem to the board of directors and the audit committee.
4. Coercing the managers through threats.

1.8 In reporting there are three different stages of importance insignificant, significant and material. Which one of the following alternatives relates to the material stage of importance?

1. Indicates that a control has a more than remote likelihood of failing and that the impact of its failure is more than trivial.
2. Indicates that a control has a more than remote likelihood of failing and that the impact of its failure exceeds the materiality threshold.
3. Indicates that a control has a remote likelihood of failing or that the Impact of its failure is trivial.
4. Indicates that a control has a poor likelihood of failing or that the failure is insignificant.

1.9 Which one of the following alternatives is not an example of consulting services provided by the internal audit activity?

1. Conducting control self-assessment training.
2. Assisting in developing and drafting policies.
3. Providing advice to management on risk management processes.
4. Examining whether control procedures are mitigating the risks identified.

1.10 Which of the following is an assurance engagement?

1. Recommending standards of control for a new information system application..
2. Drafting procedures for running a new computer application to ensure that proper controls are installed.
3. Performing reviews of procedures for a new computer application before it is installed.

4. All of the above.

1.11 The five pillars of a security policy are...

1. authentication, non-repudiation, confidentiality, availability and access.
2. integrity, competence, authentication, validity and authorisation.
3. confidentiality, application, integrity, application and authentication.
4. authentication, integrity, confidentiality, non-repudiation and authorisation.

1.12 Which of the following sentences list some of the risks associated with internet connection...

1. authentication, non-repudiation, confidentiality, availability and access.
2. integrity, competence, authentication, validity, and authorisation.
3. unauthorised access, loss of data integrity and refusal of service.
4. confidentiality, application, integrity and authentication.

1.13 The most common motivation for management fraud is the existence of...

1. vices, such as a gambling debt.
2. job dissatisfaction.
3. financial pressures on the organisation.
4. the challenges of committing the perfect crime.

1.14 Which one of the following procedures forms part of an investigation into effectiveness?

1. Evaluation of the allocation of responsibilities and authority within an organisation.
2. Evaluation of the adequacy of management's method of measuring effectiveness.
3. Evaluation of the staffing in relation to the functions that has to be performed.
4. Evaluation of the efficiency and application of operating systems and procedures.

- 1.15** In the course of their work, internal auditors must be alert to fraud and other forms of white collar crime. The important characteristic that distinguishes fraud from other varieties of white collar crime is that ...
1. fraud is characterised by deceit, concealment or violation of trust.
 2. unlike other white-collar crimes, fraud is always perpetrated against an outside party.
 3. white-collar crime is usually perpetrated for the benefit of an organisation, but frauds benefit others.
 4. white-collar crime is usually perpetrated by outsiders to the detriment of the organisation but fraud is perpetrated by insiders for the benefit of the organisation.
- 1.16** The chief financial officer has requested the internal audit activity to perform a performance audit on operational expenditure. All staff members are, however, currently engaged in other audit projects. Which one of the following alternatives will play the **smallest** role in deciding whether or not to reassign some of the audit staff?
1. During the year-end six months ago, the external auditors performed a financial audit on operational expenditure.
 2. Seven months ago, two new managers as well as an administrative person were appointed to assist with operational expenditure.
 3. During the yearly planning of the internal audit activity, a performance audit of operational expenditure was scheduled to be carried out in six months' time.
 4. A legal case has been filed against the company for payments in arrear, and some of the internal auditors are assisting management with the investigation.
- 1.17** As part of a performance audit, you are required to evaluate the company's mission statement. Which one of the following steps would you take when evaluating the mission statement?
1. Find out whether the mission statement is verbally defined.
 2. Gain an understanding of the business purpose and ensure that the mission statement does not translate into the reason for existence of the company.
 3. Evaluate the performance objectives to ensure that there is no direct link between the performance objectives and the mission statement.
 4. Discuss with management whether they are keeping their mission statement in line with the changing needs of their customers.

1.18 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.

1.19 The following audit procedure was documented in the working paper file: "To determine whether document flow and the provision of management information throughout the delivery department is optimised". This audit procedure will relate to ...

1. the economy of the process.
2. the efficiency of the process.
3. the effectiveness of the process.
4. the financial impact of the process.

1.20 An performance 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 rural areas. Which one of the following audit procedures is most likely to be found in the audit programme for this audit?

1. 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.
2. Perform an inventory count at selected branches in the rural areas and determine whether any adjustments to continuous inventory records are required.
3. Interview the branch managers in the rural areas and determine their satisfaction with the implementation.
4. 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.

---X---

8.5.4 Semester 2: Compulsory Assignment 02 (if student did not submit Assignment 01)

Instructions

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

Special instructions for answering this assignment

- (1) This assignment covers the whole syllabus.
- (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.
- (5) You are reminded that your assignments must be your own work.

By submitting your assignments, you confirm that you accept and will adhere to the terms of the **plagiarism declaration**. Please note:

- If you are found to be in violation of the declaration, you will receive 0% for Assignment 02.
- If you copied **all or a portion** of your assignment from someone else (including tutors, online study group, etc.), both you and the person(s) you copied from will receive 0%. If any similar-looking/worded assignments are found it will be considered to be a violation of the declaration.

This declaration holds you accountable for completing your assignment **on your own**.

PLAGIARISM DECLARATION:

By submitting AUI3703 assignment 02, 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 AUI3703 assignment, you automatically declare that you adhere to all the above with regard to the specific assignment.

ASSIGNMENT 02: ESSAY-TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER FOR THE SECOND SEMESTER:
823214

DATE OF SUBMISSION
Second semester: 10 September 2018

QUESTION 1

33 marks

You are working on the audit of Rexion (Pty) Ltd, a medium sized wholesaler of stationery and office supplies. All of the company's financial systems are computerised and you have been asked to assist in the evaluation of the company's general controls. One of the other trainees on the audit has prepared some notes on the company's general controls and has presented these to you.

Background Rexion (Pty) Ltd runs its accounting applications on a local area network. Terminals on the network are located on users desks in the various departments (e.g. stores, wages), whilst the network servers are located in a room (referred to by staff as the "Techno Room") in which other office equipment used by the company is housed e.g. printers, the facsimile machine and the office photocopier. Staff wishing to make use of the fax and photocopier or wishing to collect hardcopy output must go to the Techno Room. Staff enjoy this arrangement as it allows them the opportunity to have a cup of coffee or tea from the drinks machine which is also located in the Techno Room and socialize with other staff members. It also contributes to the relaxed and casual atmosphere at the company which Zak Kruger and the other managers try to maintain so that employees enjoy coming to work.

Network administrator The company's network is managed and maintained by Dion Reddy, the network administrator, and his four assistants. The IT section reports to Zak Kruger the financial manager. However, Zak Kruger does not get involved (nor does the financial director), leaving all aspects of the company's computer requirements to Dion Reddy and his staff. Dion Reddy has sole responsibility for the purchase of new computer equipment, appointment of computer personnel and, with his staff, also has responsibility for technical problem solving, programme maintenance and password authorization. Dion Reddy and his staff are technically very knowledgeable but do not know much about accounting systems and related internal controls.

Access All employees at the company (approximately 80 in total) are given access to the network even though they may not require it to fulfil their functions. For example, warehouse personnel (packers, pickers etc) can get onto the network via three terminals in the warehouse's administration office. These staff only have access to Internet facilities and a selection of computer games resident on the network for all employees to enjoy. To get onto the network an employee can enter his user identification and personal password at any terminal. At this point a menu will appear which lists all of the applications available on the network e.g. wages, inventory control, games etc, and the employee simply "clicks" on the application he requires. Once access has been gained to the selected application e.g. the wages application, a menu of the modules within the application is displayed. If an employee wishes to access a module he "clicks" on the desired module and the computer checks the user profile for that employee before granting (or denying) access. Dion Reddy has implemented the following requirements for personal passwords. They must

- be six digits of which the first three digits must be the first three letters of the department in which the employee works and the last three must be numeric e.g. WAG123 would be an employee in the wages department;
- be changed on the 2nd January each year; and
- be authorised by Dion Reddy (or one of his staff) to ensure that the same password is not chosen by more than one employee in the same department.

If an employee leaves the company his password is given to the new employee (it will only be changed on 2nd January).

Dion Reddy is also responsible for creating and maintaining user profiles on the system. If an employee wishes to change any details on his profile, e.g. change a “read only” access to a “read and write” access, a written request (on the standard document) signed by the employee must be submitted to Dion Reddy who will then make the change.

At the end of every second month Dion Reddy’s four assistants back up the data files and programmes on all terminals in the accounting department by copying the files onto external hard drives. The external hard drives are labelled and given to Dion Reddy who locks them in a drawer in his desk.

REQUIRED

- 1.1 distinguish between general controls and application controls. (5)
- 1.2 identify the weaknesses in the general controls at Raxon (Pty) Ltd based on the information provided above. For each weakness you have identified explain why it is a weakness. You consider the following categories of general controls:
 1. control environment (8)
 2. access controls (11)
 3. continuity of operations. (9)

Source: Graded Questions on Auditing.

QUESTION 2

10 marks

You are the internal auditor of a manufacturing company We Make It (Pty) Ltd. The company conducts its business with a variety of customers that vary in size, from small size retailers to franchise supermarkets. The company has various departments which include the marketing, ordering, production, sales and finance departments.

Management requested you to perform a performance audit on the ordering, sales production and dispatch processes of We Make It (Pty) Ltd.

Upon inspection of some of the delivery notes, you see that there are items on the delivery note that the customers did not accept delivery of, as they said that they had never ordered them. The customers also indicated that the items that they did order were not delivered.

REQUIRED

Marks

- 2.1 Based on the observation above, complete an audit finding providing a practical illustration of the different **elements** of an audit finding. 5

QUESTION 3**24 marks**

The internal audit activity was recently requested to complete an audit on the ordering, production, dispatch and sales processes of We Make It (Pty) Ltd.

During the opening meeting with the management team, it became clear that there is a suspicion of fraud occurring during the processes. Management requested the processes to be thoroughly investigated as the books are not balancing.

The COO gave a synopsis of the situation at ordering, production, dispatch and sales departments and well as the behaviour of some of the staff members. He also mentioned some of the complaints that they have received from customers.

- Customers have expressed discontent about always receiving inaccurate delivery invoices with extra items not ordered. The customers have stated that they never accepted the goods that they did not order. They just crossed out the ones that they never ordered and sent them back with driver.
- Some of the bad paying customers are operating on the same business premises. Some of these customers have recently disappeared without any notice and trace.
- The delivery vehicles always take longer to return than expected. In one instance one of the delivery vans had an accident in a part of town in which the company does not have any clients.
- The tyres of the delivery vehicles are replaced way too often.
- The petrol expenditure is inexplicable high compared to the amount of deliveries made per month.
- Due to staff cut backs the receiving clerks also serve as the person that prepares the supplier payment document.
- The sales and dispatch staff seems to have an eye for expensive things as some of them happen to drive better cars than their superiors.
- Customer complaints are received and addressed by the income accountant who also has the sole responsibility to capture customer information on the system.
- The new customer vetting is done every six months or after every tenth customer as a batch.
- The filing in the organisation is in shambles as certain critical payments documents sometimes seem to be missing when requested for auditing.
- There used to be a security at the gate; now the gate is automated and all the drivers have a gate remote.
- Officials are allowed to come up with their own ways to do things better and there are no formal procedures.

REQUIRED**Marks**

- 3.1** List the warning signs given in the information in the scenario that could have aroused suspicion that ordering, sales, production and dispatch staff are involved in fraudulent activities and other white collar crimes. Briefly discuss practical recommendations to improve internal controls weaknesses identified in the synopsis given by management. **(20)**
- 3.2** Name the elements of fraud. **(4)**

QUESTION 4**22 marks**

You are the internal auditor of a manufacturing company We Make It (Pty) Ltd. The company conducts its business with a variety of customers that vary in size, from small size retailers to

franchise supermarkets. The company has various departments which include the marketing, ordering, production, sales and finance departments.

Management requested you to perform a performance audit on the ordering, sales production and dispatch processes of We Make It (Pty) Ltd.

Initial discussions with the chief operations officer revealed the following.

- I. Orders come in through different sources (email, fax and telephone). Telephone orders are scripted on the diary.
 - II. Orders come in through at reception. The receptionist forwards the orders to one of the sales staff who then forward them to production. The sales department is responsible for approving the orders before they are processed for production.
 - III. The sales department approves all orders received.
 - IV. There are four staff members at the sales department. Responsibilities of the staff members are not properly defined though.
 - V. Invoices are issued out by the sales department immediately after the orders have been forwarded to production section.
 - VI. The production department works to produce and make the daily production targets.
 - VII. The pricing of orders is done at the production section.
 - VIII. The company has a huge warehousing facility.
 - IX. The company leases some of the machinery and equipment from various suppliers at different prices. The company has over the past three years hired the machinery and equipment eight times every month.
 - X. Production supplies are ordered by the receptionist on an ad hoc basis.
 - XI. Supplies are ordered from a company that is owned by a university friend of the CEO.
 - XII. Dispatch staff sit under the tree on the company property for long periods of time. Upon inquiry from the dispatch supervisor, you are told that it is because there are no deliveries to be made.
 - XIII. The customers have returned some of the deliveries due to quality concerns
- A1 – Upon inspection of some of the delivery notes, you see that there are items on the delivery note that the customers did not accept delivery of, as they said that they had never ordered them. The customers also indicated that the items that they did order was not delivered.

REQUIRED

Marks

- 3.1** For each of the statements (i to xiii) made above, indicate whether it relates to effectiveness, efficiency or economy and formulate an audit procedure for each of the statements that you can use to complete the audit. **(22)**

Present your answer in a tabular format:

Number of statement	Efficiency, economy or effectiveness	Audit procedure
	1 mark	1½ marks

---X---

9 EXAMINATION

Requirements for admission to the examination

Submission of the **compulsory Assignment 01 OR Assignment 02** 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 *Study @ Unisa* brochure for general guidance for the examination as well as for your preparation for the examination.

10 FREQUENTLY ASKED QUESTIONS

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

11 SOURCES CONSULTED

Only the prescribed textbook has been consulted.

12 CONCLUSION

We wish 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.

13 ADDENDUM

There are no addendums to this tutorial letter.