

Tutorial Letter 201/2/2015

Operational Auditing

AUI3703

THE INTERNAL AUDIT PROCESS: SPECIFIC ENGAGEMENTS AND REPORTING Semester 2

Department of Auditing

This tutorial letter contains important information about your module.

1. BRIEFING

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

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

We trust that this assignment has ignited your interest in the subject of Operational Auditing and that you are looking forward to your studies of this topic, as well as your studies of fraud auditing, which will be covered later in this module.

Yours faithfully

Lecturer: AUI3703

2. KEY TO ASSIGNMENT 01/2015 (second semester)

1.1 2	1.11 1
1.2 1	1.12 2
1.3 4	1.13 1
1.4 1	1.14 1
1.5 4	1.15 3
1.6 1	1.16 2
1.7 2	1.17 4
1.8 1	1.18 1
1.9 2	1.19 2
1.10 2	1.20 2

Comments on Assignment 01/2015 – second semester**1.1 – 2 (study guide, section 3.3.3)**

Option 2 is correct as it refers directly to one of the advantages of operational auditing. Before an operational audit, internal auditors frequently have to help management to identify undefined goals, objectives, policy and procedures, because, unless this is done, it is impossible to evaluate the effectiveness of an organisation.

Options 1, 3 and 4 do not refer specifically to one of the advantages of operational auditing.

1.2 – 1 (study guide, section 5.1.2)

Option 1 is correct as the audit documentation will be completed and reviewed during the completion phase of the audit.

Option 2 is not correct as the audit evidence is obtained during the fieldwork phase.

Options 3 and 4 are not correct as the tests of controls are performed during the evaluation of internal controls phase.

1.3 – 4 (study guide, section 3.2.3.4)

Option 4 is correct as the extent to which results are being achieved refers to effectiveness.

Options 1 and 2 are not correct as they refer to efficiency.
Option 3 is not correct as it refers to economy.

1.4 – 1 (study guide, section 3.2.3.3)

Option 1 is correct, as avoiding delays and backlogs refer to efficiency.
Options 2 and 3 refer to effectiveness.
Option 4 refers to economy.

1.5 – 4 (study guide, section 4.1.4)

Option 4 is correct, for the irregular transfer of goods or money refers to misappropriation.
Options 1, 2 and 3 refer to embezzlement.

1.6 – 1 (study guide, section 7.1.2)

Option 1 is correct, as the head of the distributions department will be interested in all of the positive and negative findings reported, as well as in the detailed findings and recommendations.
Option 2 is not correct, as the external auditors will be interested in the working papers of the internal auditors.
Options 3 and 4 are not correct, as the managing department and the audit committee will be interested in the executive summary.

1.7 – 2 (study guide, section 3.2)

Option 2 is correct as the audit procedures are techniques employed to achieve the audit objectives.
Option 1 is not correct as the skills and training of the personnel will not play a role in determining the audit procedures.
Option 3 is not correct as the personal inputs of the head of the department will not be taken into account when formulating the audit procedures; the inputs will be taken into account when formulating the audit objectives.
Option 4 is not correct as there should not be any limitations placed on the internal audit activity.

1.8 – 1 (study guide, section 4.3)

Option 1 is correct as the change in lifestyle can be seen as a red flag that fraud could be occurring.
Option 2 is not correct as a change in lifestyle is not proof that fraud is occurring.
Option 3 is not correct as his lifestyle should be in line with the income of the household.
Option 4 is not correct as a change in lifestyle can be seen as a red flag.

1.9 – 2 (study guide, section 5.4.2)

Option 2 is correct as one of the advantages of using computer assisted audit techniques (CAATS) is the consistent application of audit procedures and techniques.
Options 1, 3 and 4 refer to the disadvantages of the use of CAATS.

1.10 – 2 (study guide, section 6.1.2)

Option 2 is correct as consulting services generally involve two parties, the engagement customer and the internal audit function.

Options 1, 3 and 4 refer to assurance services which generally involve three parties, the auditee, the internal audit function and the user.

1.11 – 1 (study guide, section 1.1.2)

Option 1 is the correct answer as it best describes the purpose of the internal audit activity. The internal audit activity supports staff members at all levels within the organisation.

Option 2 is not correct as its main purpose is not only to focus on economy and efficiency of operations. The main purpose is to add value to all levels of the organisation. Effectiveness should also be evaluated.

Option 3 is not correct as it refers to the main aim of a financial audit.

Option 4 is not correct as the internal audit activity's main purpose is not only the safeguarding of assets.

1.12 – 2 (study guide, section 3.2.4)

Option 2 is correct as the audit procedures are techniques employed to achieve the audit objectives.

Option 1 is not correct as the skills and training of the personnel will not play a role in determining the audit procedures.

Option 3 is not correct as the personal inputs of the head of the department will not be taken into account when formulating the audit procedures; the inputs will be taken into account when formulating the audit objectives.

Option 4 is not correct as there should not be any limitations placed on the internal audit activity.

1.13 – 1 (study guide, section 1.2.2)

Option 1 is correct as performance standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be measured.

Option 2 is not correct because performance standards **do** deal with the actual execution of internal audits.

Option 3 and 4 are not correct since they refer to the attribute standards.

1.14 – 1 (study guide, section 1.4.2)

Option 1 is correct, inherent risk is the likelihood of a significant loss occurring before taking into account any risk-reducing factors.

Option 2 is not correct, it refers to audit risk.

Option 3 is not correct, it refers to control risk.

Option 4 is not correct, it refers to detection risk.

1.15 – 3 (study guide, section 2.1.3)

Option 3 is correct as compliance audits are carried out in order to determine whether a business entity complies with specific policies, plans and regulations, such as the requirements of the VAT Act.

Option 1 is not correct as a fraud audit involves assisting management in creating an environment that encourages the detection and prevention of fraud in commercial transactions.

Option 2 is not correct as a financial audit will look at the reliability and integrity of financial information.

Option 4 is not correct as an operational audit will look at economy, efficiency and effectiveness.

1.16 – 2 (study guide, section 3.3)

Option 2 is the correct alternative as the performance measure is a yardstick against which the achievement of a performance objective can be measured. Here we need to ensure that the invoices are paid within 30 days; therefore we should measure the creditors outstanding after 30 days.

Options 1, 3 and 4 are not correct as they do not address the performance objective directly and do not focus on the 30 days performance measure.

1.17 – 4 (study guide, section 3.1)

Option 4 is correct as the first step in the planning phase will be to determine management's business objectives.

Options 1 and 2 are not correct as the control objectives and control structures will be determined during the fieldwork phase.

Option 3 is not correct as the performance bonus structure will not be investigated during the planning phase.

1.18 – 1 (study guide, section 3.2.4)

Option 1 is correct as it refers to economy. Economy is the extent to which an organisation gets the right quantity and quality of a resource at the right time and at the best possible price.

Option 2 is not correct as effectiveness is the extent to which an activity achieves its stated performance objectives.

Option 3 refers to only the resources of the organisation.

Option 4 is not correct as efficiency refers to the extent to which a process or activity has been optimised, such that all other things remain constant.

1.19 – 2 (study guide, section 2.1)

Option 2 is correct as the internal audit activity will perform compliance reviews to ensure compliance with laws and regulations.

Option 1 is not correct as it is **not** the responsibility of the internal audit activity to safeguard the assets. The internal audit activity will, however, look at the control measures being implemented.

Option 3 is not correct as the internal audit activity cannot draft and implement the policies and procedures of the organisation; this is the responsibility of the management of the department.

Option 4 is not correct as the internal audit activity cannot formulate the goals and objectives; they can only assist in the process of formulating goals and objectives.

1.20 – 2 (study guide, section 3.2.4)

Option 2 is correct as a comprehensive operational audit approach will include all three E's

(economy, efficiency and effectiveness).

Option 1 is not correct as the relationship between actual and planned outputs refers to effectiveness and not efficiency. Efficiency refers to the relationship between actual inputs and actual outputs.

Option 3 is not correct as the internal auditor will have to perform follow-up reviews to ensure that all the recommendations are implemented.

Option 4 is not correct as the internal auditor should investigate all suspicions that fraud is occurring and should not wait until the fraud has been reported before action is taken.

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