

**May/June 2016**

Questions	Answers
1.1	B
1.2	D
1.3	D
1.4	C
1.5	A
1.6	A
1.7	A
1.8	A
1.9	B
1.10	B

**Question 2**

Number of statement	Efficiency , economy and effectiveness	Audit procedure
I	Efficiency	Randomly select one month and check if orders made through email, fax and telephone were written down on the diary
II	Efficiency	Take a sample of production cards for one month, check if there are production orders which were approved by the sales department first. Complete the audit by tracing back to reception to see if there sufficient audit evidence that orders were send by the receptionist. Check the time taken from the receiving of an order by the reception to the time when the order was processed.
II	Efficiency	Take a given sample of orders with highest amounts. Check if they were approved by the sales department before production.
IV	Economy	Calculate the average number of orders each sales staff member can complete per day under ideal standards. Compare with the current average number of orders each staff member is currently completing per day. Find the difference between the numbers of orders completed by different staff members in order to determine staff members with ideal time.
V	Efficiency	Take a sample of invoices from the system. Check the length of time between approval of an order for every invoice and the time when invoice was made.
VI	Economy	Determine the basis for pricing and review if planned manufacturing cost is equal to actual manufacturing cost.
VII	Efficiency and Economy	Inspect if there is no idle space in the warehouse. Ask management the reason for having huge warehouse when production is done according to customers orders.
VIII	Economy	Compare the cost of purchasing and the cost of lease over a long period of time. Ask management their basis for deciding to lease.
IX	Economy	Check from previous periods if there was no production disruptions due to delays in supply of raw materials
X	Economy	Ask management if there is a purchasing policy
XI	Economy	Enquire management the basis for recruitment used by the organisations.
XII	Effectiveness	Identify reasons for poor quality as specified by customers, for example broken items and wrong design. Check if management have

		taken any appropriate action to avoid the same problems from occurring.
XIII	Effectiveness	Check if there are controls over sales to customers. These include matching delivery notes to sales order so that only ordered goods are supplied to customers.

**2.2) based on the observation made in A1, draft an audit finding providing a practical illustration of the different elements of an audit finding. (10)**

1. Not orders made through email, fax and telephone were written down on the diary (**Statement of condition**) because the receptionist fails to accommodate pressure (**cause**).
2. Some production orders take more time than expected to be processed due to delays made by the reception department in sending them to the production department (**Statement of condition**).
3. Some production cards did not have signed production orders meaning there was no approval by the sales department (**Statement of condition**).
4. Sales staff members serve different number of orders per day staff member (**Statement of condition**). This may be due to some members who tend to relax at work and expecting other work colleagues to be in charge of everything (**criteria**).
5. Not all invoices were processed as soon as the order is approved (**Statement of condition**). Production orders processed towards launch may have invoices not processed resulting in the organisation losing money (**effect**).
6. The production department does not have a clear basis for determining the price of the products (**Statement of condition**). For this reason, the price must be determined using production costs in line with International accounting standards (**recommendation and criteria**).
7. The warehouse has an idle space since current inventory is not able to fill it (**Statement of condition**).
8. Costs of leasing exceed costs of purchase in the long term and for this reason, the organisation must forgo leasing and purchase its own machinery in order to minimise cash outflows in the long term (**recommendation**).
9. There are some instances when supplies are not made in time when the organisation is in need of them. The organisation has to make use of the economic order quantity (**recommendation**).
10. There are higher chances for fraud to occur. Vetting process must be done first when making a choice of suppliers in order to avoid the room for fraud to occur standards (**recommendation and criteria**). There is no sufficient evidence to show the criteria which was used to choose the supplier (**Statement of condition**).

**Question 3**

**Identify the weakness in the distribution department's operating procedures that would encourage fraudulent behaviour and for each weakness briefly describe why this would be the case. (10)**

### **Answer**

1. Drivers may arrange for fake raiding with third parties in order to take the books. This is because poor ethical culture within an organisation.
2. Recruitment of drivers is not based on merit basis (job specification and job description) giving room to the employment of unqualified drivers when they pay bribes.
3. Drivers may intentionally delay in the road in order to claim higher wages through long working hours. This is because the basis for payment is number of hours and there is no use of trackers to monitor drivers in transit.
4. Fraudulent behaviour is not communicated to the organisation, for example when an employee is fired due to fraudulent acts, existing employees are not informed. This weakens the ethical culture within an organisation.
5. Newly appointed employees are not questioned about their background. For this reason, the organisation may employ fraudsters who were fired in their former organisations.

### **3.2) describe eight (8) audit procedures that could be used to provide assurance with regard to economical purchase of the new equipment (12)**

### **Answer**

- 1) The auditor must find request the reasons why the new equipment or vehicles must be purchased.
- 2) The department in need must satisfy the auditor why available current equipments or vehicles are not enough to serve the purposes.
- 3) The auditor has to determine if the situation which leads to the need for new equipments or vehicles is permanent or temporarily. If it is temporarily, buying new equipment must be forgone and the organisation has to go for leasing. If the auditor is satisfied that there is need for new vehicles in order to meet the increase in sales, he has to compare the cost of purchase and the cost of leasing in the useful life of the asset. The auditor has to recommend the less cost one.
- 4) The auditor has to determine if the entity has sufficient funds to make the purchase or if future cash flows will be sufficient to purchase the assets.
- 5) The auditor has to identify the criteria used by management when purchasing new equipments. He can do this by looking on past information when buying decisions were done.
- 6) The auditor has to look on vetting process done by management when choosing the best supplier of equipment. He must check on issues management emphasise on. Issues must include, economical useful life (quality or durability) and previous performance of assets bought from same suppliers.
- 7) The auditor must verify the independence of the buyer. This include issues related to buying from suppliers the auditor has some interest with or is familiar to in order to reap some personal advantages.
- 8) The auditor has to check segregation of duties between the department in need of the equipment, the department making a purchase and the department which makes a payment in order to reduce chances for fraud to occur.

### **3.3) Indicate how the tasks of the internal auditor during a fraud investigation would differ from the tasks performed during a performance audit of the distribution department (6)**

### **Answer**

Objectives of the audit differ. Performance audit may focus on the reliability and effectiveness of controls on meeting the organisational objectives while fraud investigation may focus on determination of the loss the organisation suffered, the parties who were involved and the process they made.

Procedures used differ. Performance audit may be done using risk assessment procedures or analytical procedures which do not demand too much resources and time while fraud investigation requires substantive procedures which demand more time and resources so that correct amount of loss the organisation suffered may be determined.

Assertions tested differ. Audit assertions depend on the objectives of an audit. Procedures depend on the assertions to be tested. Tasks are a product of the procedures, assertions and objectives.

#### **Question 4**

**Step 3 of the IT audit process is the “EVALUATION OF THE INTERNAL CONTROLS”. Name each component of step 3 of the IT audit process, including a short explanation of each component.**

#### **Answer**

##### **Define internal control**

Internal control is a *process* established and implemented by an entity's board of directors, management, and anyone charged with corporate governance to provide reasonable assurance in the effectiveness and efficiency of operations, reliability of financial reporting and the compliance of applicable laws and regulations”.

##### **Component 1: Evaluate the five control components**

The internal control system has five components namely :

- *Control environment* – management's philosophy and operating style
- *Risk assessment* – risk identification and analysis
- *Control activities* – policies and procedures implemented in the organisation. The following controls should be implemented by an organisation:
  - preventive controls – controls intended to stop an error from occurring
  - detective controls – controls that detect whether an error has occurred
  - mitigating controls – control activities that mitigate the risks associated with key controls
- *Information and communication* – Ensure that all important information is obtained and communicated throughout the organisation.
- *Monitoring* – review output generated by control activities.

##### **Component 2: Evaluation of general and application controls**

General controls cover the entire CIS environment within which each set of application controls functions. General controls are related to all applications and provide a framework within which the CIS department exercises control over the development, operation and maintenance of individual applications.

Application controls are user and programmed controls and are embedded in each of the data processing functions, namely input, processing and output.

### **Component 3: Tests of control**

- Determine the effectiveness of the operation of internal control.
- Determine whether the design of the control is such that the control prevents material errors from occurring.
- Assess how the control was applied, whether the control was applied consistently and who applied it.
- The main focus is to re-perform the application of the controls themselves.

#### **4.2 Differentiate between application and general controls. Provide two (2) examples of each (7)**

General controls are those controls that cover the entire CIS environment within which each set of application controls functions. General controls are related to all applications and provide a framework within which the CIS department exercises control over the development, operation and maintenance of individual applications. They are controls over access to data and programs. Examples include the following;

- Employees are forbidden to eat or drink at their work stations
- Backup copies of all master files should be stored offsite

Application controls are user and programmed controls and are embedded in each of the data processing functions, namely input, processing and output. They put control access to specific program functions to ensure the validity of input, processing and output. Examples include the following,

- The line manager should approve all application program changes
- Management should review exception reports on a regular basis

#### **4.3 Provide five (5) risks associated with new IT Systems (5)**

##### **Answer**

- System development is a costly exercise. If it is not carefully planned and controlled, costs might get out of control. This could potentially put the company under severe financial constraint.
- The new system might be susceptible to inaccurate or incomplete record keeping, for example the programs might contain errors.
- Unacceptable or inaccurate accounting policies might be incorporated into the system or important accounting policies might not be incorporated at all. The system developers (eg programmers) might not understand the accounting policies and might implement them incorrectly.
- The new system might not accommodate the needs of the users. The users might require certain functions that the new system is not able to perform.
- When transferring information from the old system to the new system, information might be lost, duplicated or incorrectly transferred (with errors).
- The new system might not have sufficient controls over access to information and the integrity of data.

- If the new system is very complex, users might find the system useless if no one knows how to operate it.
- In extreme cases, system deficiencies could result in temporary or even permanent business interruption.
- The ability to commit fraud might be deliberately or accidentally designed into the system during its development.

### **Question 5**

#### **5.1 How you respond to the questions and proposal of the new CEO? (3)**

##### **Answer**

The code of ethics must continue to be followed even though the company has its own code of ethics because it applies to all professionals governed by different professional bodies.

The reporting channel is correct because assurance services must be reported through the assurance services channel that is to the audit committee and eventually to the chairman of the board.

The CEO must not edit the final audit report because there are threats to independence and objectivity such as self interest threats and advocacy threats.

#### **5.2 The International Standards for the Professional Practise of Internal Auditing are divided into attributes and performance standards. Briefly describe these two standards. (2)**

##### **Answer**

Performance standards are those standards that describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be measured.

Performance standards deal with the actual execution (performance) of internal audits, starting with the overall planning of all the audits for the year and then breaking them down into the different steps of the audit process.

Attribute standards are those standards that address the characteristics (attributes) of organisations and individuals performing internal audit activities. Attribute standards describe the attributes or characteristics needed for the effective administration of any internal audit activity.

Questions	Answers
1.1	D
1.2	C
1.3	D
1.4	B
1.5	D
1.6	B reliability
1.7	A
1.8	B observation
1.9	B
1.10	A honesty, diligence and responsibility
1.11	A Expand activities
1.12	C Invoices to payments and payables ,and payments and payables to invoices
1.13	D
1.14	D
1.15	A
1.16	A Importance of data in the system
1.17	B Matching input data
1.18	C inadequate on-line checks
1.19	D
1.20	A

## **Question 2**

### **2.1 Definition of performance auditing (3)**

Performance auditing involves firstly determining management's objectives, then establishing whether the management controls that exist lead to effectiveness, efficiency and economy.

Performance auditing can be carried out in all the functional areas of an organisation, such as marketing, sales, production and human resources. In addition to providing an assurance that the financial information is a true reflection of facts, performance auditing concentrates on the evaluation of policy, procedures, division of authority, quality of management, effectiveness of methods, special problems and other aspects of an organisation's operations.

### **2.2 describe the definition for economy, efficiency and effectiveness (7)**

Term	Definition
1.Economy	<p>Involves the achievement of the optimum balance between costs and results. Costs should be cut to the minimum, but not at the expense of results. It is the relationship between planned inputs and actual inputs in terms of unit costs.</p> <p>In an investigation into economy the auditors analyse the way in which the organisation is applying its resources, namely human resources, facilities, equipment, materials and funds. The following aspects are included:</p> <ul style="list-style-type: none"><li>• the purchasing policy of the organisation</li><li>• material prices and service costs</li></ul>

	<ul style="list-style-type: none"> <li>• staffing in relation to the functions that have to be performed</li> <li>• surplus stock on hand</li> <li>• use of more expensive equipment than necessary</li> <li>• prevention of losses and wastage of resources</li> <li>• division of projects into logically manageable tasks</li> </ul>
2.Efficiency	<p>Involves the achievement of the optimum balance between time productivity and results. It is the relationship between actual inputs and actual outputs.</p> <p>It is the extent to which a process or activity has been optimised such that, all other things remaining constant,</p> <ul style="list-style-type: none"> <li>• its output has been maximised for a given amount of input, or</li> <li>• its input has been minimised for a given amount of output</li> </ul> <p>In an investigation into efficiency, the auditors analyse the way in which the organisation is applying its resources, namely human resources, facilities, equipment, materials and funds. The following aspects are included:</p> <ul style="list-style-type: none"> <li>• the purchasing policy of the organisation</li> <li>• material prices and service costs</li> <li>• staffing in relation to the functions that have to be performed</li> <li>• surplus stock on hand</li> <li>• use of more expensive equipment than necessary</li> <li>• prevention of losses and wastage of resources</li> <li>• division of projects into logically manageable tasks</li> </ul>
3.Effectiveness	<p>It is concerned with the achievement of results and the resultant benefits. It is the relationship between actual outputs and planned outputs. Effectiveness amounts to doing the right things. Doing the right things is about performing the right activities to achieve a performance objective.</p> <p>An investigation of effectiveness is concerned with quality rather than quantity. The following procedures would, for example, form part of an investigation into effectiveness:</p> <ul style="list-style-type: none"> <li>• evaluating the organisation's approach to the development of realistic targets and objectives and procedures for attaining those targets and objectives</li> <li>• evaluating the adequacy of management's method of measuring effectiveness</li> <li>• establishing the extent to which results are being achieved identifying the factors that impede satisfactory performance or the achievement of results</li> </ul>

### **Question 3**

**3.1) describe three (3) audit procedures each that may be used to provide assurance on the effectiveness, efficiency and economy of the canteen respectively.**

#### **Answer**

##### **Effectiveness:**

Audit objective- avoid members not go far for lunch to avoid them being absent for longer than their scheduled break.

Audit procedures



The audit must physically inspect during break and launch hours if there are no members who go outside for launch and breakfast again.

The auditor must also observe the number of hours taken by staff members who come to the entity's canteen if they do not exceed the scheduled number of hours.

The auditor must ask staff members if they are satisfied with the food and service they get from their company's canteen so that they may not go back to outside canteens they used to go before.

### **Efficiency:**

Audit objective- avoid wastages of resources and time

Audit procedures

The auditor must check if there are no same staff members who go for meals at 10, 12 and 15 resulting in wastage of work time. He could do this by observation or enquiring staff members if a member is allowed to go for meals at 10, 12 and 15.

The auditor must investigate the canteen manager the basis he uses to determine the quantity of food to cook so that eventually he may not cook excess food.

The auditor must relate the number of canteen staff (12) to the number of staff members they need to serve in order to see if 12 members are not too many or insufficient for serving current staff members in order to avoid wastage of time and money (canteen workers salaries and wages).

### **Economy**

Audit objective – to sell food to the employees of the organisation at reduced cost and not at a loss

Audit procedures

Compare the total expenses excluding those overheads that existed before the canteen was started to sales of the canteen for a given period.

Investigate the purchasing policy followed by the supervisor when buying groceries. Compare the prices charged by the supervisor's friend with other prices charged by other retail shops which can offer the same grocery.

Ask the canteen supervisor the reason for recruiting a door person and if it was not possible to rotate her current canteen staff between the cooking work and door work. Confirm the criteria she used for appointment and the salary she agreed to pay her.

### **Question 4**

#### **4.1 Discuss the elements of fraud in relation to Mr Exam's action. (12)**

#### **Answer**

Element of a false representation of a material fact:

He made a false representation of a material fact when he claimed to the finance manager that he used his luxurious car when in fact, he used his wife's car.

Element of a person acting upon the representation:

He claimed R6 pr kilometre which he was supposed to claim if he used his luxurious car

Element of making with the knowledge of its falsity or without sufficient knowledge on the subject to warrant a representation:

He intentionally failed to keep a log book in order to create a room for claiming more than the actual kilometres travelled.

Element of causing damage to his image or profession:

He is involved in gambling activities which means he is greedy for finance. This may his image.

**4.2 List the steps that you would follow in respect of the suspected fraud before discussing the matter with anyone other than the audit supervisor (6)**

In order to gather that he used his luxurious car and not his wife's car, the auditor must request for toll gate tickets and parking fees tickets.

Ask the finance manager criteria he used to pay Mr Exam travelling expenses in order to avoid the room for fraud. The best criteria would involve the finance manager getting enough evidence that Mr Exam used hi luxurious car and checking from the log book or car mileage kilometres travelled by Mr Exam.

Verify if supporting documents are kept by the business (e.g log book) whenever travelling expenses are paid by the organisation.

**Question 5**

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

**Answer**

General controls exercises control over the development, operation and maintenance of individual applications. They control access to data and programs. They focuses on ensuring that, the IT system is sufficiently developed, implemented and maintained. The following are the weaknesses in the general controls of Pump Champ (Pty) Ltd.

There is no commitment to competence. Some job positions are not based on the skills and knowledge in an IT department .Jill Clinton is not best in technical matters and for this reason, she cannot review the work of three computer technicians effective.

There is no proper participation by those charged with governance. The two executive directors and one non-executive director have little interest in the financial or administrative side of the business which they leave up to Jill Clinton. Clinton may also do the same and her colleagues may also copy her causing a decrease in productivity.

There is no sound Organizational Structure for an Information Technology Department. Employees must not have confusion on who to report. Principles of authority, responsibility and accountability are not clearly defined. This is justified by the following information,

- There are no business/systems analysts who are liaising with factory employees and employees of other departments to understand their needs and documenting functional specifications for new manufacturing applications and programme enhancements.
- There are no separate programmers who write the programme code based on the specifications supplied by the manufacturing business analysts, document the technical specification and debug programmes.
- Pump Champ (Pty) Ltd does not have a webmaster that design, develop and maintain the company's website with information relating to industrial pumps. The webmaster must also regulate and manage the access rights of the users of the site and set up and maintain website navigation. He or she has to deal with complaints and other feedback about the site.
- There is no security personnel that lay down control procedures for access to all computer facilities, monitor security violations such as and follow these up, issue passwords. The company must appoint an Information Security Officer.

Human resource policies and practices are not up to standards. Three technicians are supposed to have different grades and job positions based on experience with the organization. This will reduce excessive competition among them which eventually may reduce wastages of resources. Furthermore, employees who may violate the password must have compulsory leave.

Access to network is not restricted and given to only employees who are legitimate users. This may lead to excessive wastage of resources (cost accumulation for the organization)

There is no proper segregation of duties. Parties who make programme changes must not operate the help desk and managing the database. This may give room to self review threat and will avoid room for deficiency to be noticed as soon as possible.

The server may not be able to serve all factory employees during launch time, for this reason, it may go down, disrupting organizational activities which eventually reduce productivity.

Passwords are not changed regularly. This may give room to other employees to be familiar with passwords of their workmates which may cause unauthorized access to information.

Invalidation of former employees is not done as soon as employees leave work. This may give an opportunity to former employees to continue using the company's internet after they have left work resulting in excessive wastages of the company resources.

Three technicians may not be able to save 200 employees at launch time provided employees have some challenges in accessing their user accounts.

### **MAY/JUNE 2017**

Question	Answers
1.1	D. Authentication ,integrity ,confidentiality ,non-reputation and authorisation
1.2	C. Unauthorised access, loss of data integrity and refusal of service
1.3	C. Financial pressures on the organisation
1.4	B. Evaluation of the adequacy of management's method of measuring effectiveness
1.5	A. fraud is characterised by deceit ,concealment or violation of trust
1.6	D. A legal case has been filed
1.7	D. Discussing with management whether they are keeping
1.8	A .Efficiency is the relationship

1.9	B. The efficiency of the process
1.10	A. Extract a sample

## **Question 2**

**2.1) explain why it is important to have the co-operation of Smart Power's management for this audit (4)**

### **Reasons**

- Because in this case, management is a reliable source of information since they are the one who triggered the need for performance of audit and have necessary information considering their organisational position
- To obtain possible reasons why management find it necessary to purchase additional equipment in order to increase its manufacturing capacity
- This is not an assurance service but its more of a consultative service for which management can bring ideas so that auditors add value to those generated ideas.

**2.2) Briefly explain the importance of good opening to an interview and list at least five (5) aspects to be kept in mind when opening the interviews with Smart Power's management (6)**

**2.3) For each of the documents listed above discuss what information can be obtained from the document and how the information may be utilised (10)**

### **Answer**

<b>Document</b>	<b>Information to be obtained from each document</b>	<b>How it may be utilised in the audit</b>
Organogram	It shows how authority flows from top management to lower levels of management	The auditor may know who is accountable for what when necessary information is required about achievement of objectives
System flowcharts for the different manufacturing process	It depicts stages with the production cycle. What triggers production and the step that comes after	The auditor may verify if activities are done following the cycle in place. Where the cycle is not followed, the auditor can enquire management for better understanding
Layout flow charts	It shows information about responsibilities of each and every department to another and for the organisation. It also shows staff authority	The auditor may use this to verify if there is coordination between different departments of an organisation and if there is no department which is operating at the expense of another.
A list of personnel working	The auditor gets access information about job responsibilities ,span of control ,power and authority	The auditor can assess whether there is motivation of workers in the organisation for them to be efficient. He can also find if there is no duplication of tasks in an organisation.

**2.4 Formulate six (6) questions to put to Smart Power's management to gain background information on efficiency of Smart Power's management manufacturing processes. (6)**

### Answer

Six questions include the following;

- How is their staffing in relation to the functions that have to be performed
- If there is no surplus stock on hand currently.
- An actions they put before to prevent losses and wastage of resources
- The basis they used to determine efficiency of documentation flow
- How they made sure that their organisational structure avoids job positions with performance of unnecessary tasks
- Ask management the speed of production and completion time for products
- Allocation of responsibilities and authority within an organisation to avoid duplication of tasks

### Question 3

**3.1) Identify the weaknesses in the software company operating procedures that would encourage fraudulent behaviour and for each weakness briefly describe why the weakness encourages fraudulent behaviour (8)**

#### Answer

1. Recruitment of programmers is not based on job merit basis (job specification and job description) giving room to the employment of unqualified programmers when they pay bribes.
2. Programmers may intentionally delay during their work in order to claim higher wages through long working hours. This is because the basis for payment is number of hours and there are no monitoring of programmers during their work.
3. Fraudulent behaviour is not communicated to the organisation, for example when an employee is fired due to fraudulent acts, existing employees are not informed. This weakens the ethical culture within an organisation.
4. Newly appointed employees are not questioned about their background. For this reason, the organisation may employ fraudsters who were fired in their former organisations.
5. There are no strict rules such as when a programmer is caught transferring company software secrets. Strict rules include transferring company software secrets constitute a criminal case and the issue will be reported to the police.

**3.2) describe the actions that management of the company should take in response to an alleged incidence of fraud (4)**

Newly appointed employees are must be questioned about their background to avoid the room of employing fraudsters who were fired in their former organisations.

The organisation must make use of cameras at the work place to avoid programmers intentionally delaying during their work in order to claim higher wages through long working hours.

Fraudulent behaviour must be communicated to the organisation, for example when an employee is fired due to fraudulent acts, existing employees must be informed in order to strengthen the ethical culture within an organisation.

Recruitment of programmers is must be based on job merit basis (job specification and job description) to avoid the room for the employment of unqualified programmers who pay bribes.

**3.3) describe six (6) requirements for the success of a fraud hotline within the company (6)**

**3.4) mention five (5) proactive hiring and promotion procedures the company can introduce that should limit the chance for hiring individuals with low levels of dishonesty (5)**

### **Answer**

Newly appointed employees are must be questioned about their background to avoid the room of employing fraudsters who were fired in their former organisations.

Newly appointed employees are must have their professional body which governs them in terms of good conduct behaviour.

Newly appointed employees must sign in their employment contract forms that any act of unethical behaviour will constitute criminal case and will be reported to police.

Newly appointed employees must go through an interview about the code of ethics. Candidates who fail must not be recruited.

Newly appointed employees must not have criminal cases they committed before.

### **Question 4**

**List and describe five (5) steps that should be followed when performing an IS audit (10)**

### **Answer**

#### **STEP 1: PRELIMINARY ACTIVITIES**

##### **Gather organisational information**

- This information will serve as a basis for creating the audit plan.
- The organisation's strategy and responsibilities for managing and controlling computer applications will be identified.
- Obtain general data about the company, identify financial application areas and prepare an audit plan.

#### **STEP 2: AUDIT PLANNING PROCESS**

##### **The planning process involves**

- Identifying the tasks to be performed in the course of an audit.
- Allocation of those tasks to specific auditors.
- Deciding when a task should commence.
- Quantification of the duration of each individual task based upon the auditor allocated.

##### **Structure of the plan**

- *Preliminary survey* – gain an initial understanding of the operations.

- *Internal control description and analysis* – preparation of detailed descriptions of the internal controls relating to the area under review.
- *Expanded tests* – tests that would be included in the final audit programme.
- *Findings and recommendations* – develop findings and recommendations to improve the internal controls.
- *Report production* – includes documenting and communicating the final results.

### **STEP 3: EVALUATION OF INTERNAL CONTROLS**

#### **Define internal control and evaluate the five control components**

- *Control environment* – management’s philosophy and operating style
- *Risk assessment* – risk identification and analysis
- *Control activities* – policies and procedures implemented in the organisation. The following controls should be implemented by an organisation:
  - preventive controls – controls intended to stop an error from occurring
  - detective controls – controls that detect whether an error has occurred
  - mitigating controls – control activities that mitigate the risks associated with key controls
- *Information and communication* – Ensure that all important information is obtained and communicated throughout the organisation.
- *Monitoring* – review output generated by control activities.

#### **Evaluation of general and application controls**

General controls cover the entire CIS environment within which each set of application controls functions. General controls are related to all applications and provide a framework within which the CIS department exercises control over the development, operation and maintenance of individual applications.

Application controls are user and programmed controls and are embedded in each of the data processing functions, namely input, processing and output.

#### **Tests of control**

- Determine the effectiveness of the operation of internal control.
- Determine whether the design of the control is such that the control prevents material errors from occurring.
- Assess how the control was applied, whether the control was applied consistently and who applied it.
- The main focus is to re-perform the application of the controls themselves.

### **STEP 4: FIELDWORK – AUDIT PROCEDURES**

#### **Define audit procedures**

Tasks/audit tests performed by the auditor to gather evidence to ensure that the audit objectives are met.

#### **Audit evidence**

Evidence is obtained to support the final conclusions of the audit.

- Audit evidence should be reliable, sufficient, relevant and useful in order to support findings and conclusions.
- All audit evidence should be documented to support findings.
- The following procedures can be used to obtain audit evidence:
  - enquiry
  - observation
  - inspection
  - reperformance/calculation
  - monitoring/analysing
  - CAATs

### **Audit sampling**

Application of an audit procedure to less than 100% of the population in order to evaluate audit evidence. Sampling risk is the risk that the conclusion reached may be different from the conclusion that would be reached if the entire population were tested.

## **STEP 5: COMPLETING THE AUDIT**

### **Reporting**

All findings are disclosed in the audit report issued to management. For each finding recommendations should be provided.

### **Basic audit report**

The contents of the audit report include the following:

- Background, scope and objectives
- Summary of major findings
- Audit opinion
- Detailed findings and recommendations
- Acknowledgements of satisfactory performance
- Detailed technical appendices

**4.2) For each of the controls listed 1 to 5 above, indicate whether they are general or application controls (5)**

### **Answer**

- 1) Application controls (output)
- 2) Application controls (input)
- 3) General control (storage or maintenance)
- 4) General control (storage or maintenance)
- 5) Application controls (authorisation of input)

**4.3) Discuss the conditions that you as the IS auditor will take into account when deciding whether or not to use CAATs in the audit engagement (5)**

### **Answer**



- The computer knowledge, expertise and experience required to use CAATS
- The availability of suitable CAATS and suitable computer facilities
- Whether it would be impractical to use ordinary (non-computer assisted) audit techniques
- Whether the effectiveness and efficiency of the audit process would be increased if CAATS were used
- The timing for the execution of CAATS
- The auditing software that will be used

**4.4) briefly explain to the IS audit manager the benefits of using CAATs during the audit engagement (5)**

**Answer**

There is,

- Improved efficiency and effectiveness of individual audits and of the audit department
- Ability to evaluate a larger universe and increase audit coverage
- Increased analytical capabilities
- Improved quality of activities performed during the audit
- Consistent application of audit procedures and technique
- Increased cost-effectiveness through the reusability and extensibility of computerised technique
- Improved integration of financial/information systems audit skills
- Increased independence from information systems functions and greater credibility for the audit organisation
- Greater opportunities to develop new approaches
- Better management of audit data and working papers

**Question 5**

**5.1) describe the principles on which the code of ethics of the IIA is based (6)**

**Answer**

- Integrity – to be straightforward and honest in all professional and business relationships.
- Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- Professional Competence and Due Care – to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.
- Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties
- Professional Behaviour – to comply with relevant laws and regulations and avoid any action that discredits the profession.

**5.2) describe the difference between assurance and consulting (advisory) services and provide an example of each. (5)**

**Answer**

**Assurance services** as services aiming on the examination of evidence for the purpose of providing an independent assessment on issues relating to governance, risk management and control processes for the organization. They include financial, performance, compliance, system security and due diligence engagement.

**Consulting services** refers to advisory and related client service activities. The nature and scope of consulting services are agreed with the client. The aim for the services is to add value and improve an organization's governance, risk management and control processes without the internal auditor assuming management responsibility.