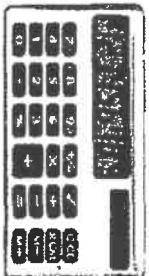


UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA
UNIVERSITY
of south africa

AUI2601

May/June 2016

INTERNAL AUDITING: THEORY AND PRINCIPLES

Duration 2 Hours

100 Marks

EXAMINERS
FIRST
SECOND

MR BL SHABANGU
MRS BM VAN WYK

Use of a non-programmable pocket calculator is permissible

Closed book examination

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THIS PAPER CONSISTS OF ELEVEN (11) PAGES

QUESTION	MAIN TOPIC	MARKS
1	Multiple-choice questions	21
2	International Professional Practices Framework (IPPF)	33
3	Internal auditing relationships with other functions	26
4	Audit fieldwork	<u>20</u>
		<u>100</u>

PLEASE NOTE:

Although the primary purpose of the examination is to test your knowledge of and ability to apply the subject matter, the examiners will also take into consideration your ability to organise and present such knowledge in academically acceptable written English

[TURN OVER]

QUESTION 1

21 marks

REQUIRED

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

- 1.1 A
- 1.2 B

Each question counts 1½ marks

- 1.1 Which of the following alternatives best completes the Mission of Internal Audit as indicated below?

To enhance and ___(a)___ organizational value by providing risk-based and objective assurance, ___(b)___, and insight

- A (a) improve, (b) advice
- B (a) protect, (b) advice
- C (a) improve, (b) training
- D (a) protect, (b) consulting

- 1.2 Which one of the following alternatives forms part of the personal characteristics required of an internal auditor?

- i Practical approach
- ii Extrovert personality
- iii Assertive
- iv Good interpersonal relations

- A i and ii
- B ii and iv
- C i and iv
- D ii and iii

- 1.3** Which one of the following is **not** an element of the International Professional Practices Framework (IPPF)?
- A The definition of internal auditing
 - B The International Standards for the Professional Practice of Internal Auditing
 - C The internal audit charter
 - D The IIA Code of Ethics
- 1.4** Indicate the alternative which correctly completes the following sentence
The main purpose of an internal audit is to
- A review the means of safeguarding assets and as appropriate, verify the existence of such assets
 - B review the reliability and integrity of financial and operating information
 - C appraise the effectiveness and efficiency of operations
 - D assist management of the organisation in the effective discharge of their responsibilities
- 1.5** Which one of the following options is an example of a directive control?
- A Review of exception reports
 - B Personnel access cards
 - C Procedure manuals
 - D Physical stock counts
- 1.6** The most important benefit that the audit committee provides to the internal auditor is to
- A protect the independence of the internal auditor from undue management influence
 - B review annual audit plans and to monitor audit results

[TURN OVER]

- C approve audit plans and to schedule meetings with the internal auditor
- D review copies of the procedure manuals for selected company operations and discuss such manuals with a company official
- 1.7** In establishing an internal auditing department for your company, your approach would most likely be to appoint

 - A internal auditors, each of whom possesses all the necessary skills for handling all auditing assignments
 - B inexperienced personnel and train them according to the company's needs
 - C qualified accountants because most audit work is related to accounting
 - D internal auditors who collectively have the knowledge and skills needed to complete all internal auditing engagements
- 1.8** An internal auditor who suspects fraud should

 - A determine whether a loss has been incurred
 - B recommend an investigation if appropriate
 - C identify the employees who could be involved in the case
 - D interview those who have been involved in the control of assets
- 1.9** Which one of the following factors is essential in evaluating the sufficiency of audit evidence? The evidence must .

 - A be well documented and cross-referenced in the working papers
 - B be based on the best available evidence that is considered appropriate
 - C bear a direct relationship to the finding and include all the elements of a finding
 - D be convincing enough for a prudent person to reach the same conclusion as the internal auditor

[TURN OVER]

- 1.10** The IIA Code of Ethics requires internal auditors to perform their work with
- A knowledge, skills and competencies
 - B honesty, diligence and responsibility
 - C punctuality, objectivity and responsibility
 - D timeliness, sobriety and clarity
- 1.11** Internal auditors who fail to maintain their proficiency through continuing education could be found to be in violation of
- A the International Standards for the Professional Practice of Internal Auditing
 - B the IIA's Code of Ethics
 - C both the International Standards for the Professional Practice of Internal Auditing and the IIA's Code of Ethics
 - D None of the above answers is correct
- 1.12** Which of the following activities is presumed to impair the objectivity of an internal auditor?
- I Recommending standards of controls for a new information system application
 - II Drafting procedures for running a new computer application to ensure that proper controls are installed
 - III Performing reviews of procedures for a new computer application before it is installed
- A II only
 - B I only
 - C III only
 - D I and III

[TURN OVER]

1.13 Which one of the following is not included in the mandatory guidance of the IPPF?

- A Implementation Guidance
- B Definition of Internal Auditing
- C Core Principles
- D Code of Ethics

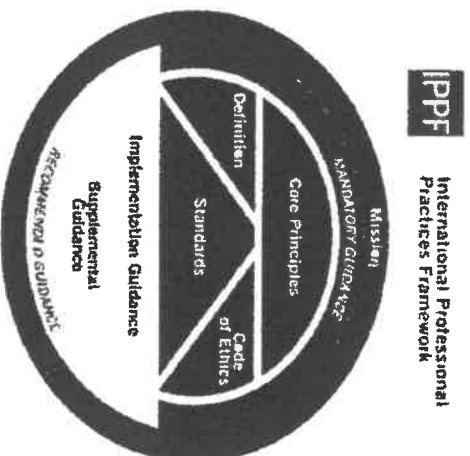
1.14 The scope of an internal audit engagement encompasses a systematic, disciplined approach to evaluate and improve the adequacy and effectiveness of all the following processes, except for

- A risk management
- B control
- C regulation
- D governance

QUESTION 2

33 marks

In the course of their duties, all internal auditors are required to adhere to the elements of the International Professional Practices Framework (IPPF) established by the Institute of Internal Auditors (IIA) In July 2015, the IPPF was updated as seen in the figure below



[TURN OVER]

REQUIRED

Marks

2.1 List **six (6)** Core Principles of the Professional Practice of Internal Auditing **(6)**

2.2 The following is a glossary of internal auditing terms. Match the term in column A with its corresponding definition in column B. For example 2.2.1 Chief audit executive – f **(7)**

No.	Column A – term	Column B - definition
2 2 1	Chief Audit Executive	a Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility
2 2 2	Fraud	b A person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards
2 2 3	Risk	c An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made
2 2 4	Assurance services	d A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the

[TURN OVER]

		organisation's objectives
2 2 5	Risk appetite	e An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation
2 2 6	Objectivity	f Any illegal act characterised by deceit, concealment or violation of trust These acts are not dependent upon the threat of violence or physical force
2 2 7	Independence	g The level of risk that an organisation is willing to accept
		h The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner
		i The possibility of an event occurring that will have an impact on the achievement of objectives
		j Any relationship that is, or appears to be, not in the best interest of the organisation

2.3 Conclude and explain, with reference to the IPPF, whether each of the scenarios below is permissible or not Please provide reasons for each of your conclusions

Your answer should be structured as follows

	Permissible/not permissible (1 mark)	Reference to IIA Code of Ethics (2 marks)	Reasons (1 mark)
2.3.1			

2.3.1 Simon is a newly appointed junior internal auditor He has no practical experience as he only graduated last month Simon has (4)

[TURN OVER]

been appointed to oversee the year-end stocktake, and has to prepare a detailed audit report on the procedures followed. The supervisor of the internal auditing department agreed that Simon could attend the stocktake on his own, as the supervisor is currently busy finalising the audit in another department and does not have time to attend.

2.3.2 Francois Burger, a junior internal audit staff member, discussed with his friends the incidence of fraud he had discovered during his audit of the company's debtors. (4)

2.3.3 The internal audit reports prepared by an internal audit activity (IAA) have for the past three years stated that their internal audit activities are concluded in accordance with the Standards for the Professional Practice of Internal Auditing. Regular internal assessments have been performed and recorded and the IAA has been subjected to an independent assessment of its quality improvement programme three years ago. (4)

2.3.4 The chief audit executive (CAE) disagrees with the engagement client about the observations that have taken place in and recommendations that have been made with regard to a sensitive area. Senior management has nevertheless accepted the risk and wants the findings removed from the report. The CAE does not accept this and reports the matter to the board. (4)

2.3.5 An internal auditor is included in the internal audit review of the accounts payable section eighteen months after being the supervisor of the accounts payable section. (4)

QUESTION 3

26 marks

You are an internal auditor at Timeless Moments Ltd. As an internal auditor, you interact with related functions, namely, management, external audit and the audit committee.

REQUIRED

3.1 Discuss management and internal audit's responsibilities regarding risk management. (5)

[TURN OVER]

3.2 Complete the following table regarding some of the differences (11) between external and internal auditing. The mark allocation is given in brackets.

Factor	Internal audit	External audit
Certification	3 2 1 (1)	Chartered Accountant
3 2 2 (1)	Institute of Internal Auditors	South African Institute of Chartered Accountants
Audit timeframe	3 2 3 (1½)	3 2 4 (1½)
Audit coverage	3 2 5 (1½)	External audit works primarily with those financial systems that have a bearing on the final accounts
Organisation al structure	3 2 6 (1½)	External audit is an external contractor, never an employee of the company
Legislation	3 2 7 (1½)	3 2 8 (1½)

3.3 List **seven (7)** practices that would enhance good relationships (7) between the audit committee and the internal audit activity.

3.4 Describe the **three (3)** elements of an internal audit charter (3)

[TURN OVER]

QUESTION 4

20 marks

The internal audit process consists of four phases. The third phase is audit fieldwork

REQUIRED

Marks

- 4.1 Name and briefly describe the four (4) most common kinds of audit evidence (6)
- 4.2 During the fieldwork of an audit, the auditor completes working papers. Describe the objectives and benefits of audit working papers (8)
- 4.3 Describe the internal auditor's responsibilities regarding fraud when conducting audit engagements (6)