

Topic 1: International Professional Practices Framework (IPPF) requirements pertaining to the Planning of an internal audit

The whole IPPF will be asked in the MCQ and long questions. However, for long questions we will focus the **mandatory guidance**. The IPPF is very important and crucial when studying internal auditing. So ensure that you are well versed in the IIA.

In topic 1, we will look at the guidance by IPPF which specifically talks on the **PLANNING** of internal audit engagements.

You may be asked either MCQ or long, scenario questions relating to IPPF. Usually for IPPF long questions, you are given a scenario in which you should explain (quoting from IPPF) on whether you conclude that scenario permissible or not permissible according to the IPPF.

For questions like this, you should answer as follows:

1. Firstly, just state if scenario is permissible or not according to the IPPF.
2. Secondly, quote/refer to the relevant part from the IPPF (Code of Ethics, IIA Standards etc.) that relates to the scenario.
3. Lastly, apply that reference from the IPPF to the scenario and explain why it is permissible or not.

Note – if the question requires you to state if the scenario is according to the IIA Code of Ethics. Therefore **only** refer to the IIA Code of Ethics. Do not refer to the IIA Standards. Alternatively, if the question requires you to state if the scenario is according to the IIA Standards, **only** refer to the IIA Standards. However, the question requires that you state if the scenario is according to the IPPF, then you can refer to any of the IPPF elements (Code of Ethics, IIA Standards etc.).

Brief overview of Topic 2: Nature of the audit engagement

Topic 2 provides an overview of the different types of audit engagements internal auditors are involved in and what are the activities necessary to plan an internal audit engagement.

We refer you the prescribed books for further guidance on the types of internal audit (assurance and consulting). Study these sections well.

In topic 2, we begin to talk about the planning of internal audit engagement. You will see that the engagement planning process is different for assurance and consulting engagements.

You need to know the steps of the planning process – therefore ensure that you know each step and understand what it entails.

Brief overview of Topic 3: Aspects of the business environment

According to the definition of internal auditing, internal auditors are involved in the evaluation of **risk management, control** and **governance** processes.

The purpose of this topic is to discuss the incorporation of risk management, control and governance processes in the planning of internal audit engagements. Since risk assessment forms an integral part of the planning process, this module discusses the concept of *risk management* in more detail. The concept of *governance* is discussed in more detail in Module AUI3702 and *Control* in Module AUI3704.

In AUI3701 governance and controls is looked at, refer to Learning units 6.1 and 6.3, and study those sections. In AUI3701 we just **delve deeper into Risk Management** (Learning unit 6.2). You will be introduced to ERM (Enterprise Risk Management, Fraud Risk Management, etc.) Ensure that you carefully go through and study the sections in the prescribed book for this section.

Fraud (Learning unit 6.2.2)

The topic of fraud is covered in learning unit 6.2.2. You are referred to the fraud sections in the prescribed books. In addition, we have also inserted a hyperlink to an important document published by the IIA – *Practice Guide: Internal Auditing and Fraud* (pg. 40 in study guide). Ensure you study this Practice Guide as it specifically gives an overview of fraud - types of fraud, who are the parties in the organisation responsible for fraud management (prevention, detection and reporting, what are the responsibilities of each of the parties etc.).

The **fraud triangle** was also covered in this learning unit. Ensure you understand the three elements (rationalisation, opportunity and pressure) of the fraud triangle. Watch videos <https://youtu.be/Tb6QX9Yy1GM> and <https://youtu.be/5GqOyHOSjSc>. You need to be able to classify whether the scenario is a rationalisation, opportunity or and explain your choice.

Control risk self-assessment (CRSA) (Learning unit 7)

Control risk self-assessment (CRSA) is described as a facilitated process whereby control owners provide a self-assessment of the design adequacy and operating effectiveness of controls for which they are responsible.

Ensure that you understand and know the purposes, benefits and steps of the CRSA process.

Brief overview of Topic 4: IT considerations

Information technology (IT) is used throughout the audit process. Topic 4 only deals with IT aspects during the **planning** of the audit.

We refer you the prescribed book to understand the IT terms and wordings. Ensure you know these terms and how IT can be used in the audit procedures (eg. CAATs).

Brief overview of Topic 5: Planning the internal audit engagement

In topic 5 we focus on the planning stage of the internal audit engagement.

We begin with the preliminary survey, which is basically an initial study of the activity under review. This is not the actual execution of the audit (eg. tests of controls and substantive testing). You are **NOT** doing **tests** on the effectiveness of the controls. You are just gathering information to understand the activity.

In the study guide we give you examples of types of information you would gather to get that understanding. There is generic information (legislation pertaining to that activity, information of the organisation, management reports) and there will be specific information relevant to that activity (for example, in a human resources audit, information on number of appointments, dismissals, resignations)

To understand the activity, to see how the process works, the internal auditor would need skills to gather that information. In this topic, we speak of interviewing, analytical procedures, etc.

From study guide and prescribed book, study what are recommended practices for interviewing.

Analytical procedures are a vital aid in the planning stage of the internal audit process because they assist the internal auditor in identifying possible problem areas. This aid can be used during all the stages of the internal audit process. Analytical procedures are viewed as the primary aid for gathering information.

As you could see when studying the section on Audit procedures in Reding et al, a large variety of analytical methods can be employed. The choice of method to use will be

determined by the nature of the information to be analysed and by the purpose of the analysis.

Analytical procedures may be divided into two broad categories:

- methods used to analyse events and results
- methods for calculating projections for planning purposes and with regard to efficiency measures and decision-making criteria

One of the analytical procedures used are **ratio analysis**. Make sure you know the formulae that are covered in the study guide. You may be asked to calculate any of these ratios based on the question given.

Brief overview of Topic 6: Documenting business cycles and processes

Topic 6 looks at the tools (flowcharts and narrative descriptions) used to document business cycles.

Please note: You need to understand **all** (revenue and receipts cycles, acquisitions and payments cycles, payroll cycle etc.) the business cycles. You need to know how a process **should** work (for example how a general payroll cycle should work). That is why we refer you to study the flowcharts or narrative descriptions of these cycles.

By understanding how a normal business cycle should work, you will be able to pick up **weaknesses or risks** when we give you a scenario question. You might get scenario question where you will be provided with a business cycle (for example, revenue and receipts cycle) and you will have to detect risks, weakness, missing controls, or recommend controls).

Remember a weakness is a shortcoming or something wrong found in the system. So when writing a weakness, you must write what is wrong in the system. A risk something wrong but you also have to mention the impact of that shortcoming would have on the organisation. When writing a risk, you must write what is wrong in the system and how will that impact on the organisation

NB!! You are referred to study the manual **and** computerised business cycles. So note you will be required to know the manual and IT controls for those business cycles.

Brief overview of Topic 7: Determining the scope and objectives of the engagement

When planning an internal audit engagement, it is essential to obtain clarity on what the engagement is intended to achieve and what the engagement will and will not cover. The

purpose of this topic is to learn how to determine these two important aspects, known as the **objectives** and **scope** of an audit engagement.

The **scope** of an audit engagement refers specifically to the **nature, timing** and **extent** of audit procedures to be performed during the engagement. Nature refers to the type of evidence. Timing refers to when the evidence will be gathered. Extent refers to how much of what type of evidence to be gathered.

The **engagement/audit objectives** are what auditors specify what they intend to achieve by performing an operational audit on the identified area and determine the boundaries of the investigation. These audit objectives should be agreed by top management and the management of the department or division in question.

Audit objectives are what the auditor wants to achieve at the end of his testing. You start an audit objective with “to determine or to ensure”.

Study the sections in the prescribed textbooks for understanding audit objectives.

Brief overview of Topic 8: Communication techniques

Finally, we reach our last topic –Communication techniques. In this topic we look at different techniques that are used to report any results to the audit client. So know these techniques.