

Tutorial Letter 101/3/2017

The Internal Audit Process: Tests of Controls

AUI3702

Semesters 1 and 2

Department of Auditing

This tutorial letter contains important information
about your module.

BARCODE

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1 INTRODUCTION

Dear Student

It gives us great pleasure to welcome you as an AUI3702 student in the Department of Auditing. We, as lecturers, are at your disposal and will gladly assist you in your studies. Be assured of our willingness to support you with advice during your studies.

You will receive a number of tutorial letters during the semester. A tutorial letter is one way of communicating with you about teaching, learning and assessment. Please read the ***my Studies @ Unisa*** brochure in combination with this tutorial letter (Tutorial Letter 101) as it gives you an idea of generally important information when studying within our College.

Right from the start we would like to point out that you must read **all the tutorial letters** you receive during the semester **immediately and carefully**, as they always contain important and, sometimes, urgent information.

This tutorial letter contains important information that will assist you in your studies. Please read it carefully and keep it at hand when working through the study material, preparing the assignments, preparing for the examination and addressing questions to your lecturers. We trust that you will benefit from everything that this module has to offer.

Study material

You will be supplied with the following tutorial material for this module by the Despatch Department:

- Study guide (included in tutorial letter MO001 and also available online through the learning units on *myUnisa*) and
- Tutorial Letters

All tutorial material will be mailed to you upon registration. Tutorial matter that is not available when you register will be posted to you as soon as possible, but is also available on *myUnisa*.

To contact the Department of Despatch regarding tutorial material that you have not received, use the telephone numbers indicated in the booklet entitled ***my Studies @ Unisa*** (which you received with your tutorial material).

You may access the tutorial letters for the modules for which you are registered on the University's online campus, *myUnisa*, at <http://my.unisa.ac.za>. You can also use *myUnisa* to confirm that you have received all the tutorial letters. Students must be registered for a *myLife* email address and must be able to access *myUnisa* to be able to access their study material **and important announcements**, submit assignments, gain access to the Library functions and various learning resources, download study material, "chat" to their lecturers and fellow students about their studies and the challenges they encounter, and participate in online discussion forums.

Note: Some of the tutorial matter may not be available when you register. Tutorial matter that is not available when you register will be posted to you as soon as possible. When you register, you will also receive an inventory letter containing information about your tutorial matter. See also the booklet entitled: **my Studies @ Unisa** (which you received with your tutorial matter).

myUnisa and myLife email address

In addition to registering on *myUnisa*, it is crucial that you activate your *myLife* email address, as all your official correspondence regarding this module will be sent to your *myLife* address and not your private email address. Please consult with the **my Studies @ Unisa** publication for more information on the activation of your *myLife* email address as well as obtaining access to the *myUnisa* module site.

Go to the website <https://my.unisa.ac.za> and login with your student number and password. Then you will see **AUI3702** in your row of modules, in the orange bar across the top of the webpage.

2 PURPOSE OF AND OUTCOMES FOR THE MODULE

2.1 Purpose

The purpose of the module is for students to gain knowledge, skills and competence in the testing of controls as part of the internal audit process, based upon the International Professional Practices Framework and other relevant guidelines.

2.2 Outcomes

The outcomes of this module can be found in the beginning of each of the different learning units.

During the semester you should:

- work through your study material, make summaries and complete the activities.
- read the announcements on *myUnisa*.
- answer the questions contained in Tutorial Letter 102 and compare your answers with the suggested solutions.
- complete and submit assignment 01 (compulsory assignment for examination admission) and assignment 02 **before the due dates**.
- prepare yourself for the examination (for examination preparation and technique refer to the **my Studies @ Unisa** brochure).

All students will receive the solution to assignment 01, even if they do not submit their assignment.

3 LECTURER(S) AND CONTACT DETAILS

3.1 Lecturers

Lecturer for AUI3702

The lecturer responsible for this module, and to whom you should direct your enquiries, is:

Ms M Edwards

E-mail: edwarm@unisa.ac.za

Tel: 012 429 6442

Course coordinator

Ms BM van Wyk

E-mail: vwykbn@unisa.ac.za

PLEASE NOTE: Personal appointments should be arranged beforehand.

Always have your student number and module code ready when you contact the university!!!

3.2 Department

Department of Auditing:

If you wish to write to us, letters should be addressed to:

The Module leader: AUI3702

Department of Auditing

PO Box 392

UNISA

0003

Secretary:

Tel: 012 429 4707/ +27 12 429 4707

Departmental Webpage:

<http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=194>

Mr RE Hlakudi is the chair of the department.

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
- purchasescript@unisa.ac.za for purchasing of papers

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

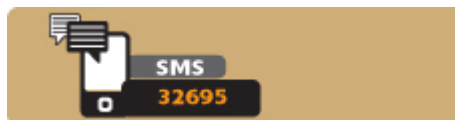
bib-help@unisa.ac.za

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*

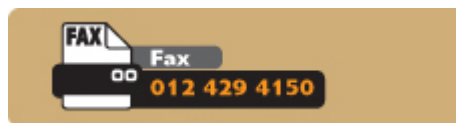
43584 for examinations*

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 +27 (0)12 429 4150

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

The resources at your disposal are classified into the following three categories:

4.1 Prescribed books

The following is a list of the prescribed books for this module. NB: all three books are essential to pass this module.

- Jackson RDC & Stent WJ. *Auditing notes for South African students*, latest edition. Durban: LexisNexis.
- Auditing: Legislation and standards. Latest edition. Durban: LexisNexis
- Gowar H & Jackson RDC. 2016. *Graded Questions on Auditing 2017*. Durban: LexisNexis.
- Reding, KF, Sobel, PJ, Anderson, UL, Head, MJ, Ramamoorti, S, Salamasic, M & Riddle, C. 2013. *Internal auditing: Assurance & advisory services*. 3rd edition

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

Prescribed books are available at the university's official booksellers. If you have any difficulties in obtaining books from these bookshops, please contact the Prescribed Book Section **as soon as possible** at telephone number +27 12 429 4152 or e-mail address: vospresc@unisa.ac.za.

Information on the use of and the sources of information available in the Unisa Library are detailed in the **my Studies @ Unisa** brochure.

4.2 Recommended books

There are no recommended books prescribed for this module.

4.3 Electronic Reserves (e-Reserves)

Information contained in Volume 2 of the SAICA handbook can be downloaded on <http://www.irba.co.za/handbooks-of-international-standards/>. Refer to the latest edition.

4.4 Library services and resources information

For brief information go to: <http://www.unisa.ac.za/contents/studies/docs/myStudies-at-Unisa2017-brochure.pdf>

For more detailed information, go to the Unisa website: <http://www.unisa.ac.za/>, 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 THE MODULE

For student support services you are referred to the *my Studies @ Unisa* brochure.

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 conduct the following academic related activities: registration; online submission of assignments; engaging in e-tutoring activities and signature courses; etc. Please note that any other activity outside of these is for your own costing e.g. printing, photocopying, etc. For more information on the Telecentre nearest to you, please visit www.unisa.ac.za/telecentres.

UNISA LIBRARY LOGIN

You will be required to provide your login details, i.e. your student number and your *myUnisa* password, in order to access the library's online resources and services.

This will enable you to:

- View or print your electronic course material.
- Request library material.
- View and renew your library material.
- Use the library's e-resources.

Requesting library books

Students are expected to purchase their own copies of the **prescribed books** listed in Tutorial Letter 101. A limited number of copies are housed in the Unisa Libraries, subject to each branch library's lending regulations. Problems experienced in obtaining copies from booksellers should be directed to the Prescribed Book Section at e-mail vospresc@unisa.ac.za or telephone +27 12 429 4152.

Electronic requests

The preferred way of requesting **recommended or additional** books is **online** via the library's catalogue.

Go to <http://oasis.unisa.ac.za>, or via *myUnisa*, go to <http://my.unisa.ac.za> > Login > Library > Library catalogue, or for mobile access, go to <http://oasis.unisa.ac.za/airpac> (AirPAC).

Telephonic book requests

This can be done on +27 (0)12 429 3133. Please supply the reservation order number (RON).

6 MODULE-SPECIFIC STUDY PLAN

You are responsible to pace yourself. The volume of work is enormous and therefore bear this in mind when planning your studies. Spread your studies evenly throughout the semester.

Also use the *my Studies @ Unisa* brochure for general time management and planning.

7 MODULE PRACTICAL WORK AND WORK-INTEGRATED LEARNING

There is no practical work for this module.

8 ASSESSMENT

8.1 Assessment plan

Assignments and learning

The study material (including the prescribed textbooks) forms an integral part of your learning. Assignments assess your progress and your learning and must be submitted before the due dates.

Please note that we do not mark the complete assignment. Questions that are not marked by the lecturing staff must be marked by the student in their own time. It is important for the process of learning for you to review your marked assignment as well as to continue with the self-marking of the assignment.

Compulsory assignment

The submission of compulsory assignment 01 and compulsory assignment 02 will prove that you are an active student and will therefore earn you admission to the examination. Admission to the examination will be obtained by submitting the compulsory assignments. You will undoubtedly realise the importance of commencing your study programme in good time so that you can obtain admission to the examination and earn a good year mark.

General remarks

- (a) All assignments (01, 02) is included in this tutorial letter.
- (b) The **compulsory assignments** (assignment 01, 02), must be submitted on or before the due date to obtain admission to the examination.
- (c) It is in your own interest to **retain a copy of proof that the compulsory assignments were 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. This year-mark will be calculated as an average of the marks obtained for **Assignment 01** and **Assignment 02** (if you obtain at least 40% in the examination).

The final mark is calculated as follows:

10% x mark obtained for compulsory Assignment 01, plus

10% x mark obtained for compulsory Assignment 02, plus

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.

THUS:

TO GET ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT ASSIGNMENT 01 AND ASSIGNMENT 02 BEFORE OR ON 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. The *Disciplinary Code for Students* (latest version) is given to all students at registration. Students are advised to study the Code. Read the University's *Policy on Copyright Infringement and Plagiarism* as well.

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

8.2 Assignments and assessment methodology applicable only to AUE3702

Assignment 01

The due date for the assignment 01 and unique code are set out in section 8.3 of this tutorial letter. If you use a wrong unique code we as lectures will never receive your assignment.

This assignment allows you to obtain **admission to the examination**. Assignment 01 is included in this tutorial letter and consists of a multiple choice assignment.

Assignment 02

Very important – the purpose of assignment 02 in this module is to build your own learning portfolio (class notes). The assignment will take you systematically through all the topics in the study guide. As soon as you complete a learning unit, you must save it on your computer (or write on an examination pad) before moving on to the next learning unit. In so doing, you will work **consistently**. You will feel good about yourself because you can see that you have progressed. Please work on your assignments on a weekly basis, **you cannot complete it over the weekend before the due date**. The amount of reading and writing required in this module is simply too much and you will end up disliking the module if you postpone your efforts.

This will require planning and work on your part (ownership and time management skills). This is an open learning environment where you manage your own progress. I do not know your personal circumstances, so I cannot prescribe when to do what. **You** are therefore required to schedule **your** own dates (targets) and discipline yourself to meet those dates. Therefore take **ownership** of your own studies and your progress – it is in your hands. In achieving your targets, you will become positive, focused and driven – the stuff auditors are made of.

Although the university allows you to submit handwritten assignments we recommend that you rather record you work on the computer. By utilising the computer you become proficient in a word program and therefore improve your basic employability skills. Remember to accumulate all the activities applicable for the assignment and submit it as a single document.

8.3 Due dates and unique assignment numbers

Each assignment has its **own unique assignment number** (eg 102717). This number must be written on the mark reading sheet or assignment cover page in the designated area.

Refer to the following table for the unique 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
01 (10 % of year mark)	6 March 2017 Unique number: 847351 Multiple choice questions.	14 August 2017 Unique number: 600965 Multiple choice questions.
02 (10 % of year mark)	18 April 2017 Unique number: 813027	11 September 2017 Unique number: 592525

8.4 Submission of assignments

You may submit written assignments and assignments done on mark reading sheets either by post or electronically via *myUnisa*. Assignments may **not** be submitted by fax or e-mail. For detailed information and requirements as far as assignments are concerned, see the brochure, ***my Studies @ Unisa***, that you received with your study material.

Note: Assignment 02 can only be submitted in PDF format on *myUnisa*. The PDF file should NOT be submitted as “Read only”.

To submit an assignment via *myUnisa*:

- Go to *myUnisa*.
- Log in with your student number and password.
- Select the module from the orange bar.
- Click on assignments in the left-hand menu.
- Click on the assignment number you want to submit.
- Follow the instructions on the screen.

Please ensure that your assignment 01 reaches the University **before the due date – late submission of assignment 01 will result in you not being admitted to the examination.**

PLEASE NOTE: You must submit assignment 01 AND 02 in order to be admitted to the examination AND both assignments 01 and 02 must be submitted for purposes of determining your year mark. No extension of the due dates can be given by the lecturers for these assignments.

General remarks

For enquiries about assignments (eg whether or not the University has received your assignment or the date on which an assignment was returned to you) please refer to the contact information in 3.4 of this tutorial letter. You may also find this information on *myUnisa*. To go to the *myUnisa* website, start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the “login to *myUnisa*” link under the *myUnisa* heading on the screen. This should take you to the *myUnisa* website. You can also go there directly by typing in <http://my.unisa.ac.za>.

Assignments posted should be addressed to:

The Registrar
PO Box 392
UNISA
0003

Completion of assignment cover

PLEASE NOTE: Make sure that you read the instructions on the assignment cover carefully before completing it. Make sure that you complete the cover **correctly**. Please make sure that the following information appears on the COVER of your assignment.

Name.
Address (and postal code).
Student number.
Subject code (e.g. AUI3702).
Correct assignment number.
Correct unique assignment number (applicable only to assignments 01 and 02).
Label with bar code.

8.5 Assignments

8.5.1 Semester 1: Compulsory assignment 01

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 ***my 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 ***my Studies @ Unisa*** when you answer multiple-choice assignments.

Special information on how to do this assignment:

- (1) This assignment consists of 20 multiple-choice questions.

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS

Semester 1

(10% of the year mark)

Refer to section 8.3

QUESTION 1

20 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

- 1.1 1
- 1.2 3

(1 mark per question)

International Professional Practices Framework (IPPF): Audit Process

- 1.1 The IIA's definition of internal auditing emphasizes the effectiveness of which one of the following?
 - 1 Value, cost and benefit propositions.
 - 2 Inherent risk, residual risk and total risk.
 - 3 Risk management, control and governance processes.
 - 4 Purpose, nature and scope of work.

- 1.2 All of the following are examples of assurance services except:
 - 1 Financial engagement.
 - 2 Compliance engagement.
 - 3 Due diligence engagement.
 - 4 Training engagement

1.3 What standard of evidence is satisfied by an original signed document?

- 1 Sufficiency
- 2 Competence
- 3 Relevance
- 4 Usefulness

1.4 In testing the write-off of a deteriorated piece of equipment, the best evidence of the condition of the equipment would be?

- 1 The equipment manager's statement regarding condition.
- 2 Accounting records showing maintenance and repair costs.
- 3 A physical inspection of the actual piece of equipment.
- 4 The production department's equipment downtime report.

1.5 Fieldwork has been defined as "a systematic process of objectively gathering evidence about an entity's operation, evaluating and determining if those operations meet acceptable standards" Which one of the following is not part of the work performed during fieldwork?

- 1 the internal control system is working.
- 2 account balances are accurately recorded.
- 3 transactions in the year under review are reasonable compared to prior years.
- 4 there are material misstatements in the financial statements.

1.6 Audit programmes testing internal controls should:

- 1 Be tailored for the audit of each operation.
- 2 Be generalized to fit all situations without regard to departmental lines.
- 3 Be generalized so as to be usable at all locations of a particular department.
- 4 Reduce costly duplication of effort by ensuring that every aspect of an operation is examined.

1.7 The IIA Standards require that internal auditors discuss conclusions and recommendations at appropriate levels of management before issuing final written reports. Which one of the following is the primary reason that a closing conference should be documented by the auditor?

- 1 The information may be needed if a dispute arises.
- 2 The IIA Standards require that a closing conference be documented.
- 3 The information may be needed to revise future audit programmes.
- 4 Closing conference documentation becomes a basis for future audits.

1.8 Which of the following does **not** describe one of the functions of the audit working papers?

- 1 Facilitates third-party reviews.
- 2 Aids in the professional development of the operating staff.
- 3 Aids in the planning, performance and review of audits.
- 4 Provides the principal support for audit communications.

1.9 The director of internal audit for an organisation has just completed a risk assessment process, identified the areas with the highest risks, and assigned an audit priority to each. Which of the following conclusions logically follow from such a risk assessment and are consistent with the IIA Standards?

- I Items should be quantified as to risk in the rank order of quantifiable risk exposure to the organisation.
- II The risk priorities should be in order of major control deficiencies.
- III The risk process, though quantified, is the result of professional judgments about both exposures and probability of occurrences.

- 1 I only
- 2 III only
- 3 II and III only
- 4 I, II and III

1.10 Audit findings often emerge by a process of comparing “what should be” with “what is”. Findings are based on the attributes of criteria, condition, cause and effect. From the following descriptions, which one most appropriately describes the effect of the audit finding?

- 1 Reason for the difference between the expected and actual conditions.
- 2 Factual evidence found during the course of the examination.
- 3 Risk or exposure encountered because of the condition.
- 4 Standards, measures or expectations used in making the evaluation

Business cycles: Risk and controls

1.11 Which one of the following risk concepts can be assumed to have no mitigating controls?

- 1 Business risk
- 2 Residual risk
- 3 Inherent risk
- 4 Current risk

1.12 The internal audit charter normally requires the internal audit activity to focus on areas consisting of which of the following?

- 1 High inherent risk and high residual risk
- 2 High audit risk and high current risk.
- 3 Low inherent risk and low audit risk.
- 4 Low inherent risk and high outstanding risk.

1.13 Which method of evaluating internal controls during the preliminary review provides the auditor with the best visual grasp of a system and a means for analyzing complex operations?

- 1 A flowcharting approach.
- 2 A questionnaire approach.
- 3 A matric approach.
- 4 A detailed narrative approach.

1.14 Which one of the following features of a large manufacturing company's organization structure would be a control weakness?

- 1 The IT department is headed by a vice president who reports directly to the president.
- 2 The chief financial officer is a vice president who reports to the chief executive officer.
- 3 The audit committee of the board consists of the chief executive officer, the chief financial officer, and a major stockholder.
- 4 The controller and treasurer report to the chief financial officer.

1.15 Which of the following controls would most likely minimize defects in finished goods due to poor quality raw materials?

- 1 Proper handling of work-in-process inventory to prevent damage.
- 2 Implementation of specifications for purchases.
- 3 Timely follow-up on favorable usage variances.
- 4 Determination of spoilage at the end of the manufacturing process.

1.16 Which of the following is an appropriate audit procedure when testing payroll in a company with a satisfactory internal control environment?

- 1 Selectively interviewing a sample of employees.
- 2 Examining time cards or time sheets for proper approval.
- 3 Sending confirmation letters to government authorities.
- 4 Verifying all payroll calculations for one pay cycle.

1.17 Which one of the following is an audit objective?

- 1 Recalculate each month's bank reconciliation.
- 2 Analyse the pattern of any cash shortages.
- 3 Observe the deposit of the day's cash receipts.
- 4 Evaluate whether cash receipts are adequately safeguarded.

1.18 Which one of the following is the best source for an internal audit team to use in identifying common external risks faced by a company?

- 1 Questionnaires.
- 2 Current research reported in professional journals and textbooks.
- 3 Flowcharts.
- 4 Review lists or reminder lists.

1.19 The policies and procedures helping to ensure that management directives are executed and actions are taken to address risks to achievement of objectives describes...

- 1 control activities.
- 2 risk assessments.
- 3 control environments.
- 4 monitoring.

1.20 The identification of damaged and obsolete inventory is important when valuing inventory. The best auditing procedure to discover damaged inventory included in closing inventory is to...

- 1 compare the physical quantities of slow-moving items with corresponding quantities of the previous year.
- 2 review management's inventory certificate for accuracy.
- 3 test the overall fairness of the inventory values by comparing the company's inventory turnover ratio with the industry average.
- 4 inspect inventory during the physical inventory count.

---X---

8.5.2 Semester 1: Compulsory assignment 02

ASSIGNMENT 02:

Semester 1

(10% of the year mark)

Refer to sections 8.2 & 8.3

QUESTION 1

20 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

1.1 1

1.2 3

(1 mark per question)

Sampling and audit procedures

- 1.1 When sampling methods are used, the concept of sufficiency of evidence means that the samples selected provide?
- A Reasonable assurance that they are representative of the sampled population.
 - B The best evidence that is reasonably obtainable.
 - C Reasonable assurance that the evidence has a logical relationship to the audit objective.
 - D Absolute assurance that a sample is representative of the population.
- 1.2 The auditor wishes to test the assertion that all claims paid by a medical insurance company contain proper authorisation and documentation, including but not limited to the validity of the claim from an approved physician and an indication that the claim complies with the claimant's policy. The most appropriate audit procedure would be to?
- A Select a random statistical sample of all policyholders, and examine all claims for the sampled items during the year to determine if they were handled properly.
 - B Select a sample of claims filed and trace to documentary evidence of authorisation and other supporting documentation.
 - C Select a sample of claims denied and determine that all claims denied were appropriate. The claims denied file is much smaller and the auditor can obtain greater coverage with the sample size.
 - D Select a sample of paid claims from the claims disbursement file and trace to documentary evidence of authorisation and other supporting documentation.

- 1.3** An internal auditor plans to use an analytical review to verify the correctness of various operating expenses in a division. The use of an analytical review as a verification technique would not be a preferred approach if?
- A The auditor notes strong indicators of a specific fraud involving this account.
 - B The company has relatively stable operations that have not changed much over the past year.
 - C The auditor would like to identify large, unusual or nonrecurring transactions during the year.
 - D The operating expenses vary in relation to other operating expenses but not in relation to revenue.
- 1.4** Purchases from two new vendors increased dramatically after a new buyer was hired. The buyer was obtaining kickbacks from the two vendors based on sales volume. Which one of the following audit procedures would possibly detect the occurrence?
- A Periodic vendor surveys regarding potential buyer conflict-of-interest or ethics violations.
 - B The receipt of an invoice to put new vendors on the master file.
 - C The use of purchase orders for all purchases.
 - D The use of change analysis and trend analysis of buyer or vendor activity.
- 1.5** Observation is considered a reliable audit procedure, but one that is limited in usefulness. However, it is used in a number of different engagement situations. Which of the following statements is true regarding observation as an engagement technique?
- A It is the most effective audit method to use in filling out internal control questionnaires.
 - B It is the most persuasive technique for determining if fraud has occurred.
 - C It is rarely sufficient to satisfy any assertion other than existence.
 - D It is the most persuasive methodology to learn how transactions are really processed during the period under review.

- 1.6** An internal auditor has set an engagement objective of determining whether mail room staff is fully productive. Which of the following engagement techniques will best meet this objective?
- A Inquiry.
 - B Observation.
 - C Analytical review entailing comparison between this mail room staff's productivity levels with similar organisations.
 - D Inspection of documents.
- 1.7** Statistical sampling differs from other sampling methods in the sense that...
- A an auditor does not have to exercise professional judgement when applying statistical sampling as he/she must when applying other sampling methods.
 - B statistical sampling produces representative samples, whereas the other methods do not.
 - C statistical sampling can deliver absolute assurance, which is not possible with other sampling methods.
 - D statistical sampling is based on the theory of probability, which is not the case with other sampling methods.
- 1.8** When planning an attribute sampling application, the difference between the expected error rate and the maximum tolerable error rate is the planned ...
- A skewness.
 - B dispersion.
 - C reliability.
 - D precision.
- 1.9** A specified range is based on an estimate of a population characteristic calculated from a random sample. The probability that the range contains the true population value is the...
- A error rate.
 - B confidence level.
 - C standard error of the mean.
 - D lower precision limit.

1.10 The use of incorrect audit procedures in a sample for a given internal audit objective is an example of....

- A alpha risk.
- B sampling risk.
- C non-sampling risk.
- D beta risk.

QUESTION 2: Weakness, risks and audit objectives

15 marks

You have recently been appointed as a junior internal auditor at Bits & Bobs (Pty) Ltd. To prepare for your job interview you did some desktop research on the company and found that a leading business magazine rated Bits & Bobs (Pty) Ltd as the leading retailer in its field. The journalist evaluated the performance and short-term liquidity ratios of 90% of the companies in the same industry and found Bits & Bobs (Pty) Ltd to be the most successful.

The company is a retailer that sells spare parts for small electrical appliances.

On your first day at Bits & Bobs (Pty) Ltd, one of the internal audit managers informs you that in accordance with the internal audit plan, an internal audit of the revenue and receipts' cycle for the period 1 April 2013 to 31 March 2014 is scheduled to commence within the next week and that you have been assigned to the audit. The internal audit manager has compiled the following narrative description of the cycle:

- The company receptionist is responsible for opening the daily incoming mail. All the orders received from customers are placed in a box marked "Incoming Orders". The box is then sent to the senior warehouse clerk who initiates the collection of the items ordered.
- Some customers fax their orders directly to the senior warehouse clerk prior to sending their orders through the mail. The company does not accept telephonic orders – when customers phone to place an order they are requested to either fax or submit a hardcopy order.
- Sales are only made on credit. No cash sales are permitted.
- On receipt of the customer orders/faxes, the senior warehouse clerk makes a photocopy of each. He files the originals alphabetically (by customer name) in a file. He divides the photocopies of orders roughly into two piles and hands a pile to each of the junior warehouse clerks who, among other duties, are responsible for collecting the ordered items from the shelves in the warehouse.

REQUIRED

Marks

- 2.1** In respect of the revenue and receipts cycle of Bits and Bobs (Pty) Ltd as described in the scenario (Part A) above, identify **four (4)** weaknesses and indicate the business risks related to each weakness.

Structure your answer to question 2.1 as follows:

2.1	Weakness (4)	Business Risk (4)

(9)

- 2.2** Based on the risks identified in 2.3 above, formulate **four (4)** audit objectives for the audit of the revenue and receipts cycle. (6)

QUESTION 3: Audit procedures and IT controls

29 marks

You are a member of the internal audit team Housewife (Pty) Ltd. The internal audit activity uses ACL (audit software) for their audits. The internal audit manager informed you that you will be performing an inventory audit in the next month and that you will be responsible for the inventory count. You have gathered the following information:

- a) The company operates from premises in a shopping centre in Pretoria, which consists of a showroom and adjoining warehouse.
- b) The company sells a large range of general kitchen appliances, e.g. fridges, stoves and microwaves, some of which are imported.
- c) A well-designed computerised inventory system is maintained and physical control over inventory is efficient. The only weakness is that cycle counts are not conducted. Other than fridges, stoves, etc on the shop floor, inventory is kept in its original packaging. The warehouse is well laid out, with different appliances being kept in designated areas and stacked by make and model.
- d) The inventory count is planned for the close of business on 30 April 2014 at 16:00.
- e) The method for counting inventory will be as follows:
 - Sequenced inventory count sheets will be printed off the inventory master file but will reveal only the inventory item number, description and location of the inventory. The theoretical quantity on hand will not be shown.
 - The warehouse will be divided into ten designated areas and ten, two-person teams will perform the count.
 - As each item is counted, the first count team member will attach a bright pink label to it and the second member will record the quantity of the items on hand on the inventory sheet.
 - Once the count is completed, the count teams will return the inventory count sheets to John Khumalo, the warehouse manager, who will be in charge of the count.
 - While the count teams have a break, the quantities recorded on the inventory count sheets will be compared to the quantities recorded on the inventory master file, and a list of differences will be printed out. The count teams will then recount/follow up on items for which there is a difference. Where there are physical quantity errors, they will be corrected on the inventory count sheets so that, by the end of the count, John Khumalo will be satisfied that the inventory count sheets accurately represent the physical inventory on hand.

- f) Subsequent to the inventory count, any quantity differences resulting from errors in the inventory records will be investigated and the master file amended accordingly. Once this has been done, the final inventory count sheets will be produced and the value of inventory will be calculated from the inventory master file.
- g) Around mid-April, count teams were provided with written count information and instructions by John Khumalo.

REQUIRED**Marks**

- 3.1** Describe the audit procedures you as internal auditor will be expected to conduct while attending the inventory count of Housewife (Pty) Ltd.
(1½ marks per valid audit procedures) **(18)**
- 3.2** Using the ACL audit software, describe the substantive procedures that can be performed on the inventory system. **(8)**
- 3.3** The Information Technology (IT) Control Framework consists of governance, management and technical controls. List the components of each of these controls:
- a) Governance controls
 - b) IT Management controls
 - c) IT Technical controls **(3)**

QUESTION 4: Working papers**6 marks**

You are a senior internal auditor at Irrega (Pty) Ltd, a company that manufactures equipment and supplies used for residential irrigation systems. The chief audit executive wants to implement an induction course for newly appointed internal auditors and he has requested you to assist with the compilation of the induction manual and programme.

He gave you a case study which he intends to include in the programme and has requested you to compile the solution.

IRREGA (Pty) Ltd		Prepared by: ME 10 April 2016 Reviewed by: JS 12 April 2016
Internal audit of the payroll/salaries department		
Wages for February 2016		
Audit objective	Audit procedure	Results
Ensure that all the overtime paid in February 2016 was properly approved.	Select a sample of overtime payments from the February 2016 payslips and ensure that the applicable workers' clock cards were signed by the foreman as evidence of his approval of the overtime.	Monetary unit sampling was used to select a sample of 20 overtime payments. The total overtime paid amounted to R65 800. Of the 2000 factory workers only 250 were paid overtime in February 2016. Overtime payments to the

		value of R850 (two instances) were not approved.
--	--	--

Conclusion:

The overtime paid in February 2016 was approved in all material respects.

REQUIRED**Marks**

- 4.1 Review the working paper in the case study above and state, with reasons, whether the audit procedure would lead to the achievement of the audit objective. (3)
- 4.2 Discuss whether the conclusion as stated in the working paper above is supported by the evidence as described under conclusion. (3)

QUESTION 5: Controls**18 marks**

You were recently employed as an internal auditor by Virtual Books, an organisation that sells books through the internet. The customers must open an account on the website, providing personal and credit card details. You are aware that credit card fraud is very common and that it could occur in any organisation. Credit card details provided are verified before the purchase is confirmed. An email is sent to the customer confirming purchase details, estimated delivery details and the reference number. A company ensuring website security for purchases, Websure, is used to prevent any attempted fraud.

When a customer places an order, an email is sent to the order clerk. The order clerk issues internal sales orders that are filed and sent to the warehouse. The picker uses the internal sales order to pick the goods requested. When goods are out of stock, this is indicated on the picking slip. The goods and documentation are given to the store clerks. The store clerk issues a delivery note for goods sold. If there are items that are not in stock, a back order note is completed and sent to the buying department. The goods are sent with the delivery note to despatch. At despatch the order is verified, prepared and despatched via courier service to the customer.

REQUIRED**Marks**

Describe the internal controls you would expect to be in place in the sales system of Virtual Books. Focus on the internal controls of the following functions:

- Receiving of orders
 - Warehouse (Picking of the order items)
 - Despatch and delivery
- (18)

QUESTION 6: Sampling**10 marks**

A fellow internal audit student comes to you for assistance with audit sampling concepts. You undertake to assist him with some of his questions.

REQUIRED**Marks**

Answer the following questions which were posed to you by a new junior internal auditor during a mentoring session.

- | | | |
|------------|--|------------|
| 6.1 | What is the difference between non-statistical sampling and statistical sampling? | (4) |
| 6.2 | What factors will have a direct influence on the nature and size of sampling? (Mention at least eight (8) factors) | (4) |
| 6.3 | How should one formulate a conclusion based on a monetary unit sample of accounts payable where the monetary precision is set at R8 500, the confidence level at 63% and the result of the test led to an adjusted monetary precision of R8 628? | (2) |

QUESTION 7: Governance legislation**(12 marks)**

The King III Report states that *the board should ensure that the company has an effective and independent audit committee.*

REQUIRED**Marks**

- | | | |
|------------|--|------------|
| 7.1 | List the composition of the audit committee and its responsibilities as recommended by the <i>King III Report</i> . | (6) |
|------------|--|------------|

The objective of the PFMA is to provide for effective corporate governance of national and provincial government and its agencies and entities, by regulating direction and control and improving transparency and accountability.

REQUIRED**Marks**

- | | | |
|------------|--|------------|
| 7.2 | List the composition of the audit committee and its duties as required by the <i>Public Finance Management Act No 1 of 1999</i> and the <i>Treasury Regulations</i> . | (6) |
|------------|--|------------|

---X---

8.5.3 Semester 2: Compulsory assignment 01

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 **my 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 **my Studies @ Unisa** when you answer multiple-choice assignments.

Special information on how to do this assignment:

- (1) This assignment consists of 20 multiple-choice questions.

ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS

Semester 2

(10% of the year mark)

Refer to section 8.3

QUESTION 1

20 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

1. 1
2. 3

(1 marks per question)

International Professional Practices Framework (IPPF): Audit Process

- 1.1** An internal auditor takes a photograph of the auditees workplaces. The photograph is a form of what kind of evidence?
- 1 Physical.
 - 2 Testimonial.
 - 3 Documentary.
 - 4 Analytical.
- 1.2** According to the IIA Standards, which one of the following is not included in the scope of the internal audit function?
- 1 Appraising the effectiveness and efficiency of operations and programmes.
 - 2 Reviewing the strategic management process, assessing the quality of management decision making both quantitatively and qualitatively and reporting the results to the audit committee.
 - 3 Reviewing the means of safe guarding assets.
 - 4 Complying with the laws, regulations, policies, procedures and contracts.
- 1.3** In evaluating the validity of different types of audit evidence which one of the following conclusions is incorrect?
- 1 Recomputation, although highly valid, is limited in usefulness due to its limited scope.
 - 2 The validity of documentary evidence is independent of the effectiveness of the control system in which it was created.
 - 3 Internally created documentary evidence is considered less valid than externally created documentary evidence.
 - 4 The validity of confirmations varies directly with the independence of the party receiving the confirmation.
- 1.4** Writing an audit programme occurs at which stage of the audit process?
- 1 During the planning stage.
 - 2 Subsequent to testing internal controls to determine whether to rely on the controls or audit around them.
 - 3 As the audit is performed.

4 At the end of each audit the standard audit programme should be revised for the next audit to ensure coverage of noted problem area.

1.5 The consultative approach to auditing emphasizes?

- 1 Imposition of corrective measures.
- 2 Participation with auditees to improve methods.
- 3 Fraud investigation.
- 4 Implementation of policies and procedures.

1.6 Working papers should include ...

- 1 all working papers prepared during a previous audit.
- 2 documentation substantiating the examination and evaluation of the adequacy and effectiveness of the system of internal control.
- 3 copies of all procedures that were reviewed during the internal audit.
- 4 copies of all source documents examined in the course of the internal audit.

1.7 An internal auditor judged an item to be immaterial when planning an audit. However, the auditor may still include the item if it is subsequently determined that?

- 1 Sufficient staff is available.
- 2 Adverse effects related to the item are likely to occur.
- 3 Related evidence is reliable.
- 4 Miscellaneous income is affected.

1.8 In a final audit report, which attribute should be addressed by the recommendation?

- 1 Condition.
- 2 Cause.
- 3 Effect.
- 4 Criteria.

1.9 An internal auditor has set an audit objective of determining whether all cash receipts are deposited daily. To achieve this objective, the internal auditor interviewed the supervisor, who assured him that all cash receipts are deposited as soon as is reasonably possible. The assurance of the supervisor can be used as evidence that is...

- 1 sufficient but not reliable or relevant.
- 2 sufficient, reliable and relevant.
- 3 not sufficient, reliable or relevant.
- 4 relevant but not sufficient or reliable.

1.10 The main reason for issuing an internal audit report is to...

- 1 give auditees an opportunity to respond to the matters addressed by the report.
- 2 report to interested parties on audit findings and recommendations.
- 3 give management an opportunity to take corrective action for reported findings.
- 4 provide the external auditors with a basis for relying on the work of the internal auditor.

Business cycles: Risk and controls

1.11 Which one of the following is the most efficient source for an auditor to use to evaluate a company's overall control system?

- 1 Control flowcharts.
- 2 Copies of standard operating procedures.
- 3 A narrative describing departmental history, activities and forms usage.
- 4 Copies of industry operating standards.

1.12 An internal auditor found that in one of the departments, the payroll supervisor does not properly approve employee time cards. Which one of the following could result owing to this control deficiency?

- 1 Duplicate paycheques might be issued.
- 2 The wrong hourly rate could be used to calculate gross pay.
- 3 Employees might be paid for hours they did not work.
- 4 Payroll cheques might not be distributed to the appropriate payees.

1.13 Two organisations have recently merged. The audit committee has asked the internal auditors from both organisations to assess risks that should be addressed after the merger. One manager has suggested that the engagement teams jointly examine the organisational culture and the “tone at the top” to identify control risks associated with the proposed merger. Which one of the following statement is true?

- 1 The organisational culture is not a part of the control environment and therefore should not be considered for a proposed engagement.
- 2 Although the organisational culture could be considered part of the control environment, the assessment of such an environment would be highly subjective and therefore not useful.
- 3 Differences in the organisational culture should be systemically identified because the difference may present major risks to the success of the merger. However, identifying difference is not an appropriate activity because it is political and subjective.
- 4 None of the answers are correct.

1.14 There are certain types of IT risks that tend to be common across organisations and industries. Which one of the following risks can be defined as unauthorised disclosure of business partners’ proprietary information or individual’s personal information that may result in loss of business, lawsuits and reputation impairment?

- 1 Access risk.
- 2 Availability risk.
- 3 Confidentiality and privacy risk.
- 4 System reliability and information integrity risk

1.15 Controls should be designed to ensure that ...

- 1 management’s plans have not been circumvented by worker collusion.
- 2 management’s planning, organising and directing processes are properly evaluated.
- 3 operations are performed efficiently.
- 4 the internal audit activity’s guidance and oversight of management’s performance is accomplished economically and efficiently.

1.16 For good internal control in the revenue and receipts cycle, company policy should clearly indicate that defective merchandise returned by customers is to be delivered to the ...

- 1 sales clerk.
- 2 inventory control clerk.

- 3 goods receiving clerk.
- 4 accounts receivable clerk.
- 1.17** The cash receipts function should be separated from the related recordkeeping function in an organisation in order to...
- 1 physically safeguard the cash receipts.
 - 2 minimise undetected misappropriations of cash receipts.
 - 3 prevent paying cash disbursements from the cash receipts.
 - 4 establish accountability when cash is first received.
- 1.18** Which one of the following situations represents an internal control weakness in the payroll department?
- 1 Pay cheques are distributed by employees' immediate supervisors.
 - 2 Payroll department personnel are rotated in their duties.
 - 3 Payroll records are reconciled with quarterly tax reports.
 - 4 The timekeeping function is independent of the payroll department.
- 1.19** During an audit of the **receiving operations** of a manufacturing organisation, an internal auditor will be most concerned with the risk that the function has ...
- 1 received goods that were ordered.
 - 2 an insufficient staff complement to perform all the tasks.
 - 3 failed to detect the receipt of goods of poor quality
 - 4 paid inflated prices for goods from related parties.
- 1.20** An internal auditor is observing cash sales to determine if customers are given written receipts. The objective of this test is to ensure that ...
- 1 cash received equals the total of the receipts.
 - 2 customers are charged authorised prices.
 - 3 cash balances are correct.
 - 4 all cash sales are recorded.

8.5.4 Semester 2: Compulsory assignment 02

ASSIGNMENT 02: PORTFOLIO

Semester 2

(10% of the year mark)

Refer to sections 8.3 & 8.4

QUESTION 1

20 marks

REQUIRED

Select for each question only **ONE** alternative that you consider to be the most correct and then mark on *myUnisa* or on the mark reading sheet the digit that corresponds to the digit of the alternative which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follows:

1.1 1

1.2 3

(1 mark per question)

Sampling and Audit Procedures

- 1.1 During an audit, the internal auditor should consider the following factor(s) in determining the extent to which analytical procedures should be used?
- A Adequacy of the system of internal control.
 - B Significance of the area being examined.
 - C Precision with which the results of analytical audit procedures can be predicted.
 - D All of the above
- 1.2 Which one of the following types of audit tests would be the **most** persuasive if an internal auditor wanted assurance of the **existence** of inventory stored in a warehouse?
- A Physically inspecting the inventory in the warehouse.
 - B Obtaining written confirmation from management as to the existence of the inventory.
 - C Examination of the warehouse receipts contained in the auditee's records.
 - D Examination of the shipping documents supporting recorded transfers to and from the warehouse.

- 1.3** In preparing a sampling plan for an inventory pricing test, which of the following describes an advantage of statistical sampling over non-statistical sampling?
- A Requires non quantitative expression of sample results.
 - B Provides a quantitative measure of sampling risk.
 - C Minimises non-sampling risk.
 - D Reduces the level of tolerable error.
- 1.4** When sampling methods are used, the concept of sufficiency of information means that the sample selected provides _____.
- A reasonable assurance that the sample is representative of the sampled population.
 - B reasonable assurance that the evidence has a logical relationship with the internal audit objective.
 - C absolute assurance that the sample is representative of the population.
 - D the best evidence that is reasonably obtained.
- 1.5** In a sampling application, the group of items about which the auditor wants to estimate some characteristic is called the ...
- A attribute of interest.
 - B population.
 - C sample.
 - D sampling unit.
- 1.6** One payroll audit objective is to determine whether segregation of duties is proper. Which of the following activities is incompatible?
- A hiring employees and authorising changes in the pay rates.
 - B preparing the payroll and filling payroll tax forms.
 - C signing and distributing the payroll cheques.
 - D preparing attendance data and preparing the payroll.

- 1.7** Which one of the following analytical trends indicates the possibility of an increase in obsolete inventory on hand?
- A A decrease in the ratio of inventory to accounts payable.
 - B A decrease in the inventory turnover rate.
 - C A decrease in the ratio of inventory to accounts receivable.
 - D A decrease in the ratio of gross profit to sales.
- 1.8** When an internal auditor uses monetary-unit statistical sampling to examine the total value of invoices, each invoice ...
- A has an equal probability of being selected.
 - B has an unknown probability of being selected.
 - C can be represented by no more than one monetary unit.
 - D has a probability proportional to its monetary value of being selected.
- 1.9** To verify the proper value of costs charged to real property records for improvements to the property, the best source of information is
- A Inspection by the internal auditor of real property improvements.
 - B A letter signed by the property manager asserting the propriety of costs incurred.
 - C Original invoices supporting entries into accounting records.
 - D Comparison of billed amounts with contract estimates.
- 1.10** To determine whether refunds granted to customers were properly approved, the internal auditor should vouch accounts receivable entries to...
- A sales invoices.
 - B remittance advices.
 - C shipping documents.
 - D credit memos.

QUESTION 2: Test of controls

10 marks

You are employed in the internal audit department of ADF Mining Limited as the internal audit supervisor. Your chief audit executive (CAE) informed you that you are scheduled to start a payroll audit in two weeks. He provided you with a description of the employee payroll process that was captured by the external auditors when they performed their audit previously. The process description is as follows:

Payroll division of ADF Mining Limited Ltd consists of three employees:

- Two payroll clerks (Dina van der Schyff and Piet Koekemoer),
- The payroll manager (Thando Modisa)

For timekeeping of the employees, ADF Mining Limited uses a computerised clocking system. The company uses a biometric reader for identification of employees and recording hours worked. This biometric system is controlled by the human resources section. The employee is required to place his or her thumb on the scanner at the entry/exit point to the workplace. The capturing of time of entry and exit will only be recorded if there is a match of the thumb print to the employee's thumb print stored on the computer. When the payroll is processed, the file of hours worked is imported and the wage application software automatically calculates the hours worked by the employee for the wage period.

At the end of the wage period, the payroll is prepared. The hours that have been worked, both normal and overtime for each employee, will be on the system against the employee's hourly wage rate to arrive at the gross amount to be paid. Before the payroll preparation commences, a schedule of normal and overtime hours for the weeks is printed out and sent to the supervisor for approval. The supervisor checks the schedule for any incorrect or unusual hours recorded and that overtime hours recorded were authorised prior to being worked. Once satisfied, he approves the hours worked schedule on the system. Access to the hours worked file is restricted and the supervisor has no write access to the file.

The payroll is prepared automatically by the computer system from the following:

1. Employee details updated by the human resources section, including new appointments and resignations.
2. Access to the payroll system is restricted to authorised personnel through use of a valid username and password.
3. Details of deductions to be made from employees' gross wages are updated by the payroll clerk. Dina is responsible for the payroll of the employees with surnames A-L and Piet is responsible for employees with surnames N-Z. The payroll clerk has no write access to the masterfile data (such as name, level, hourly rates, etc) applicable to the employee.
4. Once the payroll is processed, the payroll and a number of supporting schedules will be produced for final review by Thando. As the manager, Thando has only read access to the system.
5. Once the payroll manager is satisfied with the payroll file, he will select the "approve" option and there will be no further write access to the file. The payroll will then be processed for payment to employees by EFT transfers.
6. The payroll system is set up to print out automatically an activity report of access gained to the payroll system, and an exception report of any unsuccessful attempts. These reports are generated at the end of each week and are only accessible to the payroll manager. The payroll manager is responsible for reviewing and following up on issues indicated in the report.

REQUIRED**Marks**

Formulate the tests of controls that you will perform to test the automated internal controls described in the scenario.

(10)**QUESTION 3: Risks and Test of controls****20 marks**

You are busy with an internal audit of the acquisition and expenditure cycle of your organisation. The purchasing manager (auditee) answered the following questions, which appear in the standard internal control questionnaire:

INTERNAL CONTROL QUESTIONNAIRE		
Internal control questions		Auditee response
a)	Is a written order, duly authorised, produced for all purchases?	<i>Sometimes.</i>
b)	Do the receiving clerks prepare and sign a goods received note in respect of goods received?	<i>I have told them to.</i>
c)	Do inventory custodians countersign a copy of the goods received note on receipt of purchases from the receiving department?	<i>That is what the policy requires.</i>
d)	Are payments for purchases supported by a properly authorised order, a suppliers delivery note, a goods received note and a purchase invoice?	<i>Always.</i>
e)	Are all supporting documents stamped "paid" or "presented" once they have been presented for signature?	<i>I think so.</i>

REQUIRED**Marks**

3.1 State the risk that is addressed by each of the internal control questions above.

(5)

3.2 Compile two tests of control to test the reliability of each of the controls identified in the above internal control questionnaire.

(15)

QUESTION 4: Audit finding**7 marks**

In response to a special request by the financial manager, you are required to briefly review the reasonableness of the accounts receivable (debtors) balance at the end of June 2014. The financial manager is concerned with the collectability of debtors after the debtors' age analysis suddenly worsened in May.

During your review you uncover the fact that the debtors' statements were posted two weeks later than usual in May as a result of a problem encountered with the information system. The server that housed all the accounts receivable information was hit by lightning.

Owing to the volume of journals and in an attempt to ensure that the system would be able to go live as soon as possible, the accounts receivable manager gave a blanket approval of all the journals processed to update the system. This is contrary to company policy.

You have collected the following information during your audit:

- The total amount of disputed transactions comes to 5% of the monthly turnover.
- The total debtors balance was R360 500 in May and R450 300 in June.
- Credit sales for May and June respectively amounted to R1 700 000 per month.

You also discovered that some of the payments received from debtors, while the accounts receivable system was down, were subsequently not updated.

You have discussed the matter with the accounts receivable manager, who commented that he is aware of some of the problems. Owing to the massive backlog created by the breakdown, his staff is simply unable to cope with more than their current workload.

REQUIRED**Marks**

Compile an audit finding based on the above scenario. Your finding should include any recommendations you might have.

(7)**QUESTION 5: Audit procedures and audit objectives****31 marks**

Dirty Jobs Limited is a plumbing company that manufactures and sells plumbing supplies and provides plumbing services. You have been a senior internal auditor at the company from the inception of the internal audit activity, five years ago.

Part A**18 marks**

Part of this year's audit plan is to perform an audit on the procurement department of Dirty Jobs Limited. Through a discussion with the senior manager in the procurement department, you identified the following high risk areas:

- I. Invalid purchases may be recorded.
- II. Goods received from suppliers may not be recorded.
- III. Liabilities may be understated, causing profits to be overstated.

IV. Purchases may be accounted for in the current period, while the goods were in fact only received in the following period.

Marks

5.1 For each of the above risks formulate an audit objective that you will include in your internal audit programme for the assurance engagement. Layout your answer in the format below. **(6)**

5.2 Describe **two (2)** audit procedures for each of the audit objectives identified in 5.1. **(12)**

Please use the following format for your answer:

5.1 Audit objective	5.2 Audit procedures
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PART B

13 marks

A fellow colleague has requested your assistance with the internal audit to which she has been assigned. She was given the responsibility of performing an internal audit of the payroll function in respect of the workers who perform the plumbing services for Dirty Jobs Limited. She has completed the process of documenting the system of internal control and has supplied you with the following information:

- Mr Harpic records hours worked on time cards. He extends and casts each time card, and on a weekly basis takes a machine-strip of the total hours worked, which he then signs. He sends the time cards and machine-strip to Mrs Domestos in the payroll office.
- Mrs Domestos captures all the time card information (hours and employee details) using an input terminal. This information is processed to generate the weekly payroll and error report. The error report is filed by Mrs Domestos.
- The changes to master files, such as wage rate changes, are prepared by a separate personnel department and sent directly to the computer department. (Mrs Domestos has no access to the master files.)
- Mrs Domestos packs the money into pay packets and later gives it to an independent person, Mr Duck (from the personnel office). He has the sole responsibility for paying the employees.
- Unclaimed wages are returned to Mrs Domestos who then immediately lists them in the presence of Mr Duck.
- Mrs Domestos and Mr Duck sign the register to verify the completeness of the listing of total unclaimed wages.

REQUIRED

Marks

5.3 Describe the internal control objectives for the wages system described above. **(3)**

5.4 Identify any internal control weaknesses evident from the above information. **(10)**

QUESTION 6: Sampling**13 marks**

The auditor obtains evidence sufficient to be able to draw conclusions which in turn support the audit opinion. Audit evidence is obtained by applying auditing procedures, and these may be applied to an entire set of data, usually referred to as the population, or to part of the population by selecting a sample from that population.

REQUIRED	Marks
6.1 What is audit sampling?	(2)
6.2 Where an auditor applies procedures to less than 100% of a population, what are the items to which the auditing procedures are applied collectively known as?	(1)
6.3 Why is it important that the sample be representative of the population?	(2)
6.4 Explain the difference between deviations and misstatements in the context of audit sampling.	(2)

The following are factors that the auditor may consider when determining the sample size for tests of detail.

Factor

6.5 An increase in the auditor's assessment of the risk of material misstatement.	(2)
6.6 A decrease in the use of other substantive procedures directed at the same assertion.	(2)
6.7 An increase in the auditor's required confidence level.	(2)

REQUIRED

Indicate the effect (either increase or decrease) each of the factors listed above would have on the sample size. Provide a brief explanation for your choice.

QUESTION 7: Payroll Cycle**9 marks**

The payroll and personnel cycle is one of the most important functions within any company. You are a junior internal audit trainee about to embark on your first assignment which is the audit of the payroll and personnel cycle at People Limited. Your Senior Manager has given you the following assignment to complete to ensure that you are equipped for the audit.

REQUIRED	Marks
7.1 List two benefits of having wages paid by electronic funds transfer directly into employee's bank accounts.	(2)
7.2 Material misstatement of the wage expense is more likely to arise from fraudulent financial reporting than from misappropriation of assets. True or false? Explain.	(2)

- 7.3 Give two terms which are used to describe “fictitious employees”. (1)
- 7.4 Identify three advantages which a company will derive from changing from a clock card system to a biometric reader to record the time worked by hourly paid employees. (3)
- 7.5 Physical verification of salaried employees is a test of controls. True or false? Explain. (1)

---X---

9 OTHER ASSESSMENT METHODS

No other assessment methods have been included.

10 EXAMINATIONS

Requirements for admission to the examination

Submission of the **compulsory assignment 01** and **02** by its due date will give a student admission to the examination in this module. Admission will be obtained by submitting assignments **in time** and not by the marks you obtain for it. Please ensure that this assignment reaches the University **before or on the due date**. **Late submission of the assignment will result in you not being admitted to the examination. No extension will be given for the late submission of assignments 01 and 02.**

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 2017 and the supplementary examination will be written in October/November 2017. If you are registered for the second semester you will write the examination in October/November 2017 and the supplementary examination will be written in May/June 2018.

During the semester, the examination section will provide you with information regarding the examination in general, examination venues, examination dates and examination times.

Format of the examination paper

The duration of the examination is 3 hours. The exam paper consists of a scenario with questions. Students will have to apply their theoretical knowledge to the information provided in the scenario. The examination will not contain any multiple-choice.

Calculator policy

Candidates may only use silent, electronic, battery-driven pocket calculators subject to the following conditions:

- Calculators must be cordless, and may not have print-out facilities or alpha keys;
- Any financial calculator will be allowed, as the following tables will not be provided:
 - Tables of present value factors for various discount rates for varying periods; and
 - Tables of future value factors for various interest rates for varying periods;

- The calculator function on mobile telephones or any electronic device (i.e. laptops and/or any Smart Phone) may not be used; and
- Candidates may not share a calculator with another candidate in the examination room.

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. However, sufficient practice questions may be obtained from Tutorial Letter 102.

Use the **my Studies @ Unisa** brochure for general guidance for the examination as well as for your preparation for the examination.

11 FREQUENTLY ASKED QUESTIONS

The **my Studies @ Unisa** brochure contains an A-Z guide of the most relevant study information.

12 SOURCES CONSULTED

Except for the prescribed text books of the module no additional sources were consulted.

13 CONCLUSION

Wishing you every success with your Auditing studies! We are here to assist you where we can with the content of the module. Please make the most of your opportunity to learn about this module.

14 ADDENDUM

There is no addendum to this tutorial letter.