

# Tutorial letter 101/3/2015

## The internal audit process: Tests of Controls

### AUI3702

### Semesters 1 & 2

### Department of Auditing

**IMPORTANT INFORMATION:**

Please activate your *myLife* email address and ensure you have regular access to the *myUnisa* module site for AUI3702 since this is a fully online module.

Note: This is an online module, and therefore your module is available on myUnisa. However, in order to support you in your learning process, you will also receive some study materials in printed format.

BAR CODE

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## 1. INTRODUCTION

Dear Student

Greetings to you and welcome to

It gives us great pleasure to welcome you as an AUI2601 student in the Department of Auditing. As your lecturers, we are at your disposal and will gladly assist you in your studies. Be assured of our willingness to support you with advice during your study programme.

Because this is a fully online module, you need to use myUnisa to study and complete the learning activities for this course. You need to visit the websites on myUnisa for AUI2601 frequently. The website for your module is AUI2601-15-S1/S2.

### 1.1 Getting started

Because this is a fully online module, you need to go online to see your study materials and read what to do for the module. Go to the website here: <https://my.unisa.ac.za> and login with your student number and password. You will see AUI2601-15-S1/S2 in the row of modules in the orange blocks across the top of the webpage. Remember to also check in the -more- tab if you cannot find it in the orange blocks. Click on the module you want to open.

In addition, you will receive this tutorial letter and a printed copy of the online study materials from your module. While these printed materials may appear to be different from the online study materials, they are exactly the same and have been copied from the online myUnisa website.

We wish you success on your journey!

## 2. OVERVIEW OF THIS MODULE AUI3702

### 2.1 Purpose of this module

The purpose of the module is to enable the students to demonstrate detailed knowledge, specific skills and applied competency in testing for controls as part of the internal audit process.

### 2.2 Outcomes

For this module, there are several outcomes that we hope you will be able to accomplish by the end of the course:

- **Specific outcome 1:** Adhere to the International Professional Practices Framework (IPPF) of Internal Auditing when conducting tests of controls.
- **Specific outcome 2:** Consider the significant factors impacting on conducting of tests of controls.
- **Specific outcome 3:** Ability to develop applicable tests of control.
- **Specific outcome 4:** Ability to develop audit findings and recommendations.

### 3. LECTURER(S) AND CONTACT DETAILS

#### 3.1 Lecturer

The primary lecturer for this module is Sumaya Jaffer.

Department: Auditing  
Telephone: 012 429 8591  
Email: [ejaffes1@unisa.ac.za](mailto:ejaffes1@unisa.ac.za)

#### Course coordinator

Mrs BM van Wyk  
E-mail: [vwykbm@unisa.ac.za](mailto:vwykbm@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: +2712 429 4707

##### Departmental web page:

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

#### 3.3 College

College related undergraduate enquiries should be directed to: +2712 429 2233/2982 or [Casenquiries-undergraduate@unisa.ac.za](mailto:Casenquiries-undergraduate@unisa.ac.za)

#### 3.4 University

To contact the University, you should follow the instructions contained in the brochure, **my Studies @ Unisa**. Remember to have your student number available when you contact the University.

When you contact the lecturer, please do not forget to always include your student number. This will help the lecturers to help you.

**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:



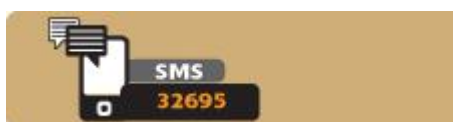
- [info@unisa.ac.za](mailto:info@unisa.ac.za) for general enquiries
- [study-info@unisa.ac.za](mailto:study-info@unisa.ac.za) for application and registration-related enquiries (prospective and registered students)
- [international@unisa.ac.za](mailto:international@unisa.ac.za) for international students (registration-related enquiries)
- [assign@unisa.ac.za](mailto:assign@unisa.ac.za) for assignment enquiries
- [exams@unisa.ac.za](mailto:exams@unisa.ac.za) for examination enquiries
- [despatch@unisa.ac.za](mailto:despatch@unisa.ac.za) for study material enquiries
- [finan@unisa.ac.za](mailto:finan@unisa.ac.za) for student account enquiries
- [gaudeamus@unisa.ac.za](mailto:gaudeamus@unisa.ac.za) for graduation enquiries
- [myUnisaHelp@unisa.ac.za](mailto:myUnisaHelp@unisa.ac.za) for assistance with myUnisa
- [myLifeHelp@unisa.ac.za](mailto:myLifeHelp@unisa.ac.za) for assistance with myLife email accounts
- [aegrotats@unisa.ac.za](mailto:aegrotats@unisa.ac.za) for aegrotat exams
- [remark@unisa.ac.za](mailto:remark@unisa.ac.za) for remarking of papers
- [recheck@unisa.ac.za](mailto:recheck@unisa.ac.za) for rechecking of papers
- [condiscipuli@unisa.ac.za](mailto:condiscipuli@unisa.ac.za) for fellow student names
- [counselling@unisa.ac.za](mailto:counselling@unisa.ac.za) for student counselling and career development
- [vospresc@unisa.ac.za](mailto:vospresc@unisa.ac.za) for enquiries about prescribed books

### 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	<a href="mailto:bib-oasis@unisa.ac.za">bib-oasis@unisa.ac.za</a>
Library web co-coordinator	<a href="mailto:bib-web@unisa.ac.za">bib-web@unisa.ac.za</a>
Inter-library loans enquiries	<a href="mailto:libr-ill@unisa.ac.za">libr-ill@unisa.ac.za</a>
Enquiries about subject databases	<a href="mailto:bib-dbase@unisa.ac.za">bib-dbase@unisa.ac.za</a>
Library information desk	<a href="mailto:bib-help@unisa.ac.za">bib-help@unisa.ac.za</a>
Enquiries about training presented by the library	<a href="mailto:bib-oplei@unisa.ac.za">bib-oplei@unisa.ac.za</a>
Send a question to the library staff	<a href="mailto:bibrefq@unisa.ac.za">bibrefq@unisa.ac.za</a>

### 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](mailto:info@unisa.ac.za).

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**

For library service request procedures, please consult *my Studies @ Unisa* brochure.

### **4.1 Prescribed books**

Your prescribed textbooks for this course for this year are:

- Jackson RDC & Stent WJ 2012. *Auditing Notes for South African Students*. Latest edition. Durban: LexisNexis.
- Gowar H 2012. *Graded Questions on Auditing 2014*. Latest edition. Durban: LexisNexis
- *Auditing: Legislation and Standards 2012*. Latest edition. Durban: LexisNexis.
- Reding KF 2013. *Internal Auditing: Assurance & Advisory Services*.

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

**Please note:**

It is **essential** that you either acquire or have the prescribed textbooks at your disposal.

We recommend that you purchase the prescribed books as you will have to study it thoroughly and refer to it frequently. **We suggest that you try to obtain the book as soon as possible.**

**4.2 Recommended books**

It is important to note that as a student it is your responsibility to enrich your studies by reading as extensively as possible and to use other sources to supplement the prescribed textbook. Periodical articles can also be used as sources of information when answering your assignment and examination questions. Please remember to always acknowledge your information sources.

**4.3 Joining myUnisa**

If you have access to a computer that is linked to the internet, you can quickly access resources and information at the University. The myUnisa learning management system is Unisa's online campus that will help you to communicate with your lecturers, with other students and with the administrative departments of Unisa – all through the computer and the internet.

You can start at the main Unisa website, <http://www.unisa.ac.za>, and then click on the myUnisa orange block. This will take you to the myUnisa website. To go to the myUnisa website directly, go to <https://my.unisa.ac.za>. When you are on the myUnisa website click on the “Claim UNISA Login” at the right-hand side of the screen. You will then be prompted to give your student number to claim your initial myUnisa as well as myLife login details.

Please consult the publication my Studies @ Unisa which you received with your study material for more information on myUnisa.

**4.4 Other resources – Printed support materials**

Because we want you to be successful in this online module, we also provide you with some of the study materials in printed format. This will allow you to read the study materials, even if you are not online.

- These printed study materials will be sent to you at the beginning of the semester, but you do not have to wait to receive them to start studying – You can go online as soon as you register and all your study materials will be there.
- Therefore, the printed materials are not something that you need to wait for before you start with the module. It is only an offline copy of the formal content for the online module.
- This will give you the chance to do a lot of the studying of this module WITHOUT having to go to the internet or to an internet cafe. This will save you money, of course, and you will be able to take as much time as you need to read -- and to re-read -- the materials and do the activities.

It is therefore very important that you log into myUnisa regularly. We recommend that you should do this at least every week or every 10 days to check for the following:

- **Check for new Announcements.** You can also set up your myLife email so that you receive the Announcement emails on your cell phone.
- **Do the Discussion forum activities.** For every unit in this module, we want you to share with the other people in your group in the activities. You can read the instructions here, and even prepare your answers but you need to go online to post your messages.
- **Do other online activities.** E-tutors are provided in this module. You will be allocated to an e-tutor group on myUnisa. Therefore participate actively with your etutor.

We hope that this system will help you to succeed in this online module by giving you extra ways to study the materials and practice with all of the activities and assignments. At the same time, you **MUST** go online in order to complete the activities and assignments on time -- and to get the most from the online course.

Remember, the printed support materials are a back-up to everything that is found online, on myUnisa. There are no extra things there. **In other words, you should NOT wait for the Printed support materials to arrive to start studying.**

## 5. HOW TO STUDY THIS MODULE ONLINE

### 5.1 What it means to study fully online?

These modules are taught fully online – this means that it is totally different from some of your other modules at Unisa.

- **This means that all your study materials and learning activities are designed to be online, on myUnisa.** Even though we give you a printed copy to support your studies, the module is designed for online.
- **This means that all of your assignments must be submitted online.** It means that you do all your activities and submit all your assignment on myUnisa. In other words, you can NOT post your assignments through the South African Postal Service.[This will depend on the module]
- **This means that all of the communication between yourself and the university also happens online –** by email, in Discussions and through Questions and Answers. You can use all of these ways to ask questions and contact your lecturers. This also means that your lecturers will communicate with you in the same way – through emails, with Announcements, in Discussions and with Questions and Answers.

### 5.2 The myUnisa tools you will use

All of the information about myUnisa tools is located on the myUnisa website for this module. However, we thought it was important to stress the tools that will be used for your formal Assignments.

- **Assignments:** The assignments which are not done in Discussions are what we call written assignments and they require you to type the written assignment in a Word document and submitting it online in the same manner you submit all other assignments online. The assignments will be routed to your lecturer who will mark it. You may be given a form to fill in or type a document, but it depends on the assignment. These typed assignments must be submitted using the online



Assignments tool on myUnisa, as a pdf document. The instructions for submitting these assignments are in Unit 0.

## 6. ASSESSMENT

### 6.1 Assessment plan

Here is a break-down of the assignments, as they occur in the semester.

#### Assignments

Assignments are seen as part of the learning material for this module. As you do the assignments, study the reading texts, consult other resources, discuss the work with fellow students or tutors or do research, you are actively engaged in learning.

The marks you obtain for assignment 01 and assignment 02 will contribute towards your year mark.

#### Commentaries and feedback on assignments

The solution to assignment 01 will be provided to you in Tutorial Letter 201 which will only be distributed after the due date of assignment 01. The solution to assignment 02 will be sent to you in Tutorial Letter 202 which will only be distributed after the due date of assignment 02.

As soon as you have received the solutions and commentaries, please check your answers. The assignments and the commentaries on these assignments constitute an important part of your learning and should help you to be better prepared for the next assignment and the examination. The solution and commentary on the self evaluation examination paper will be included in Tutorial Letter 202 which will enable you to mark your assignment.

Assignments are numbered consecutively per module, starting from 01. Only Arabic numerals are used, for example: Assignments 01, 02, 03, and so on.

In addition to the general assignment number (eg 01), 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.

#### Due dates for assignments

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 (Compulsory)	12 March 2015 Unique number: 654325	12 August 2015 Unique number: 654402
02 (Compulsory)	16 April 2015 Unique number: 654359	09 September 2015 Unique number: 654414

## 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*.**

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 in order to be admitted to the examination while 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.**

## 6.2 Year Mark and Final Examination

Your Year Mark for this module

- Weighting in the course: **Year Mark & Exam**

The marks that you obtained for assignment 01 and assignment 02 will contribute towards your year mark for the module.

Your year mark contributes 20% towards your final examination mark. A student requires a final mark of 50% to pass a module. 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.

Please ensure that your assignment 01 and assignment 02 reach the university **before the due date – late submission of these assignments will result in you not receiving marks that count towards your year mark.**

**THUS:**

**TO GAIN ADMISSION TO THE EXAMINATION, YOU MUST SUBMIT AT LEAST ONE ASSIGNMENT BEFORE OR ON THE DUE DATE**

**YOUR MARKS FOR BOTH ASSIGNMENTS 01 AND 02 WILL BE USED TO DETERMINE YOUR YEAR MARK**

**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 2015 and the supplementary examination will be written in October/November 2015. If you are registered for the second semester you will write the examination in October/November 2015 and the supplementary examination will be written in May/June 2016.

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

**Previous Examination Papers**

Previous examination papers are available to students on *myUnisa*. Suggested solutions are **not** provided. 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.

Use the *My studies @ Unisa* brochure for general guidance for the examination as well as for your preparation for the examination.

## Assignments

### Semester 1: Compulsory Assignment 01

#### ASSIGNMENT 01: MULTIPLE-CHOICE QUESTIONS (compulsory)

UNIQUE ASSIGNMENT NUMBER: 654325

DUE DATE: 12 March 2015

#### 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 instructions regarding the answering of this assignment

- (1) This assignment consists of 20 multiple choice questions.
- (2) This assignment covers topics 1-7 of the study guide.

**20 marks**

#### QUESTION 1

#### REQUIRED

Select for each question only **ONE** option 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 option which you have selected as your answer. Answer the sub-sections of this question in numerical sequence, for example, as follow:

1. 1
2. 3

(1 mark per question)

- 1.1** Vouching entails verifying recorded amounts by examining the underlying documents from the \_\_\_\_\_ documents to the \_\_\_\_\_ documents.
1. Final; original.
  2. Final; previous.
  3. Original; final.
  4. Original; subsequent.
- 1.2** The proper organisational role of internal auditing is to
1. Assist the external auditor to reduce external audit fees.
  2. Perform studies to assist in the attainment of more efficient operations.
  3. Serve as the investigative arm of the Board.
  4. Serve as an independent, objective assurance and consulting activity that adds value to operations.
- 1.3** An internal auditor discovered some material inefficiencies in a purchasing function. The purchasing manager is the internal auditor's next door neighbour and best friend. In accordance with the IIA Code of Ethics, the internal auditor should
1. Objectively include the facts of the case in the engagement communications.
  2. Not report the incident because of loyalty to the friend.
  3. Include the facts of the case in a special communication submitted only to the friend.
  4. Not report the friend unless the activity is illegal.
- 1.4** A recommendation in a final engagement communication should address what attribute?
1. Cause.
  2. Statement of condition.
  3. Criteria.
  4. Effect.
- 1.5** Which of the following engagement procedures provides the best information about the collectability of notes receivable?
1. Confirmation of notes receivable balances with the debtors.
  2. Examination of notes for appropriate debtor's signatures.
  3. Reconciliation of the detail of notes receivable and the provision for uncollectible amounts to the general ledger accounts.
  4. Examination of cash receipts records to determine the promptness of interest and principal payments.
- 1.6** An internal auditor performed a formal consulting engagement for ABC Limited on June 1, Year 1. When is the earliest time the auditor can perform assurance services for ABC Limited and be considered independent and objective?
1. January 1, Year 2.

2. June 1, Year 2.
3. July 1, Year 1.
4. June 2, Year 2.

**1.7** In sampling application, the group of items about which the auditor wants to estimate some characteristics is called the

1. Population.
2. Attribute of interest.
3. Sample.
4. Sampling unit.

**1.8** An internal auditor is planning to use attribute sampling to test the effectiveness of a specific internal control relating to approvals for cash disbursements. In attribute sampling, decreasing the estimated occurrence rate from 5% to 4% while keeping all other sample size planning factors exactly the same would result in a revised sample size that would be

1. Larger.
2. Smaller.
3. Unchanged.
4. Indeterminate.

**1.9** When an internal auditor uses monetary-unit statistical sampling to examine the total value of invoices, each invoice

1. Has an equal probability of being selected.
2. Can be represented by no more than one monetary unit.
3. Has an unknown probability of being selected.
4. Has a probability proportional to its monetary value of being selected.

**1.10** An internal auditor has set an engagement objective of determining whether the planned rate of return on investment in international operations has been achieved. Which of the following engagement procedures will best meet this objective?

1. Inspection of documents.
2. Observation.
3. Inquiry.
4. Analytical review.

**1.11** Which of the following is most likely an internal audit role in a less structured governance process?

1. Designing specific governance processes.
2. Playing a consulting role in optimizing governance practices and structure.
3. Providing advice about basic risks to the organization.
4. Evaluating the effectiveness of specific governance processes.

- 1.12** The requirement that purchases be made from suppliers on an approved vendor list is an example of a
1. Preventative control.
  2. Detective control.
  3. Corrective control.
  4. Monitoring control.
- 1.13** Inherent risk is
1. A potential event that will adversely affect the organization.
  2. Risk response risk.
  3. The risk after management takes action to reduce the impact or likelihood of an adverse event.
  4. The risk when management has not taken action to reduce the impact or likelihood of an adverse event.
- 1.14** Which of the following controls would prevent the ordering of quantities in excess of an organization's needs?
1. Review of all purchase requisitions by a supervisor in the user department prior to submitting them to the purchase department.
  2. Automatic reorder by the purchasing department when low inventory is indicated by the system.
  3. A policy requiring review of the purchase order before receiving a new shipment.
  4. A policy requiring agreement of the receiving report and packing slip before storage of new receipts.
- 1.15** A utility with large investment in repair vehicles would most likely implement which internal control to reduce the risk of vehicle theft or loss?
1. Review insurance coverage for adequacy.
  2. Systematically account for all repair work orders.
  3. Physically inventory vehicles and reconcile the results with the accounting records.
  4. Maintain vehicles in a secured location with release and return subject to approval by a custodian.
- 1.16** To minimise the risk that agents in the purchasing department will use their positions for personal gain, the organization should
1. Rotate purchasing agent assignments periodically.
  2. Request internal auditors to confirm selected purchases and accounts payable.
  3. Specify that all items purchase must pass value-per-unit-of-cost reviews.
  4. Direct the purchasing department to maintain records on purchase prices paid, with review of such being required each 6 months.

**1.17** Which of the following statements is an engagement objective?

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

**1.18** Which of the following is a risk that is higher when electronic funds transfer (EFT) system is used?

1. Improper change control procedures.
2. Unauthorized access and activity.
3. Insufficient online edit checks.
4. Inadequate backups and disaster recovery procedures.

**1.19** The purposes of the Standards include all the following except

1. Establishing the basis for the measurement of internal audit performance.
2. Guiding the ethical conduct of internal auditors.
3. Stating basic principles that represent the practice of internal auditing.
4. Fostering improved organizational processes and operations.

**1.20** To verify the proper value of costs charged to real property records for improvements to the property, the best source of information is

1. Inspection by the internal auditor of real property improvements.
2. A letter signed by the property manager asserting the propriety of costs incurred.
3. Original invoices supporting entries into accounting records.
4. Comparison of billed amounts with contract estimates.

**Some questions were adapted from Gleim: CIA Exam Review**

---X---



**Semester 1: Compulsory Assignment 02****ASSIGNMENT 02: ESSAY TYPE QUESTIONS****UNIQUE ASSIGNMENT NUMBER: 654359****DUE DATE: 16 April 2015****Instructions:**

- (1) Consult *My studies @ Unisa* for instructions on how to submit written assignments.

**Special instructions regarding the answering of this assignment**

- (1) This assignment covers the whole syllabus.
  - (2) All questions must be answered.
  - (3) Only **selected** questions will be marked.
- This assignment forms part of your final examination preparation and is a timely opportunity to identify any topics that may be causing you problems.
  - Make sure that you answer all the questions. Only a selection of questions will be marked by your lecturers and the marks you receive for these questions will constitute the mark for the assignment. No marks will be given for any questions that have been left unanswered.
  - Please assess those questions that have not been marked by your lecturers on your own by comparing your answers to the key for this assignment, which will be provided in Tutorial Letter 202/1/2015.
  - Your marks for this assignment will give you an indication of your knowledge of the module and you will be left with enough time to refine your knowledge before the beginning of the examinations.

**QUESTION 1****15 marks****REQUIRED**

For each subsection of this question, select only **one** alternative that you consider to be the most correct answer. Then write down, as your answer, the number of the subsection and the letter preceding the selected alternative. 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 one of the following controls could be used to detect bank deposits that are recorded but never made?
- A. Having bank reconciliations performed by a third party
  - B. Consolidating cash receiving points
  - C. Establishing accountability for receipts at the earliest possible stage in the process
  - D. Linking receipts to other internal accountabilities such as accounts receivable or sales
- 1.2** Which one of the following analytical trends indicates the possibility of an increase in obsolete inventory on hand?
- A. A decrease in the inventory turnover rate
  - B. A decrease in the ratio of gross profit to sales
  - C. A decrease in the ratio of inventory to accounts receivable
  - D. A decrease in the ratio of inventory to accounts payable
- 1.3** Which one of the following represents an internal control **weakness** in the payroll department?
- A. Pay-cheques are distributed by the employees' immediate supervisor.
  - B. The timekeeping function is independent of the payroll department.
  - C. Payroll records are reconciled with quarterly tax reports.
  - D. Payroll department personnel are rotated in their duties.
- 1.4** Which one of the following is **least** likely to be placed on the agenda for discussion at a pre-engagement meeting?
- A. The required records and input from client personnel
  - B. The sampling plan and audit programmes
  - C. The expected starting and completion dates
  - D. The purpose and scope of the engagement
- 1.5** 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.

**1.6** Indicate the alternative that correctly completes the following phrase:

The internal auditor uses analytical procedures to evaluate information provided by the auditee. Analytical procedures ...

- A. may provide the best available information for the completeness assertion.
- B. involve tests such as confirmation of receivables.
- C. are never sufficient on their own to support management assertions.
- D. are regarded as direct information about the assertion being evaluated.

**1.7** An internal auditor would primarily rely on which type of audit evidence when evaluating the collectability of accounts receivable?

- A. Positive confirmation.
- B. An age analysis of accounts receivable.
- C. Negative confirmation.
- D. Management's representations.

**1.8** When reviewing the average collection period of the company's debtors' accounts, the internal auditor observes an increase from 30 to 60 days in the collection period for the current financial year.

Which one of the following alternatives is the most likely cause of this phenomenon?

- A. An increase in the organisation's sales volume
- B. A slackening of the organisation's credit control
- C. A smaller incidence of slow-moving stock
- D. An increase in the profit margin on sales

**1.9** Despite the fact that management principles can be taught to everyone, not everyone who learns these principles can manage successfully. Successful management depends **mostly** on ...

- A. excellent people skills.
- B. an ability to control and direct the work performed in the organization.
- C. making correct decisions for every occasion.
- D. an ability and inclination to move other towards desired goals and a sense for making reasonable decisions.

**1.10** When reviewing a factory that manufactures body parts for vehicles, the internal auditors would be **most** concerned if they were to identify a risk that the factory has ...

- A. received goods that were not ordered
- B. accepted goods in excess of current needs
- C. paid inflated prices for goods from related parties
- D. failed to detect the receipt of substandard raw materials

## QUESTION 2

**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**

**2.1** 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**

**2.2** Describe **two (2)** audit procedures for each of the audit objectives identified in 2.3.

**12**

Please use the following format for your answer:

<b>2.1 Audit objective</b>	<b>2.2 Audit procedures</b>
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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**

- 2.3** Describe the internal control objectives for the wages system described above. **(3)**
- 2.4** Identify any internal control weaknesses evident from the above information. **(10)**

**QUESTION 3****10 marks**

You are the internal auditor at Shine (Pty) Ltd, a company that manufactures and sells household cleaning agents. The audit of the inventory function is currently in process and the fieldwork will be completed within the next month.

During your review of the updated process of the inventory records at the supply department you find that staff members only update the records when there is idle time, but at least once a month. This is due to the fact that the staff have too many responsibilities and do not find the time to update the records.

The policies and procedures require staff to maintain perpetual inventory records as the ordering of raw materials (chemicals) is automated and based on critical information derived from the perpetual inventory records.

You estimate that the loss suffered on account of obsolete inventory being written off and out of stock situations, due to the fact that ordering does not take place at the correct time and intervals, amount to approximately R100 000 per month and around 10% of the monthly purchases. This represents a substantial increase from the previous year.

**REQUIRED**

**MARKS**

- 3.1** Name the five key factors required to develop a finding with a brief description of each key factor. (5)
- 3.2** Develop a finding, based on the information above, that is to be sent to the senior management of Shine (Pty) Ltd, according to the key factors needed to develop a finding. (5)

**Question 4**

**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.

**YOU ARE REQUIRED TO** answer the following questions regarding audit sampling.

- 4.1** What is audit sampling? (2)
- 4.2** 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)
- 4.3** Why is it important that the sample be representative of the population? (2)
- 4.4** 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**

- 4.5** An increase in the auditor's assessment of the risk of material misstatement. (2)
- 4.6** A decrease in the use of other substantive procedures directed at the same assertion. (2)
- 4.7** An increase in the auditor's required confidence level. (2)

**YOU ARE REQUIRED TO** 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 5****18marks**

You are an internal auditor at an expanding BBBEE firm in Limpopo. The firm wants to start up their auditing department and have hired you as the Senior Internal Auditor. Management has a few questions regarding internal auditing which they would like you to answer.

- 5.1** Distinguish between compliance-based internal audit and risk-based internal audit. (3)
- 5.2** Does internal audit form part of a company's combined assurance model? Explain. (2)
- 5.3** Who is responsible for overseeing that the internal auditors and the external auditors co-operate where possible? (1)
- 5.4** The Companies Act 2008 requires that companies have an internal audit department. True or false? Justify. (1)
- 5.5** What is the position taken by King III with respect to companies having an internal audit function? (4)
- 5.6** Outline the key responsibilities of internal audit in assisting the board in discharging its governance responsibilities. (4)
- 5.7** To whom should the chief audit executive report? (1)
- 5.8** List 4 key attributes which the CAE should possess to be able to fulfill the function. (2)

**YOU ARE REQUIRED TO** answer all management's questions above as per internal audit best practices.

**Question 6****13 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.

**YOU ARE REQUIRED TO** answer the following questions with regard to payroll and personnel.

- 6.1** List two benefits of having wages paid by electronic funds transfer directly into employee's bank accounts. (2)
- 6.2** 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)
- 6.3** Give two terms which are used to describe "fictitious employees". (1)

- 6.4** 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)
- 6.5** Physical verification of salaried employees is a test of controls. True or false? Explain. (1)
- 6.6** When an auditor performs a physical verification of wage employees, evidence pertaining to the existence assertion is being obtained. True or false? Explain (1).
- 6.7** If a company pays wages below the minimum wage rate, is it fraud? Explain. (2)
- 6.8** Why would an auditor conduct a reverse physical verification, i.e. from employee to wage records? (1)

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**Semester 2: Compulsory Assignment 01****ASSIGNMENT 01: MULTIPLE CHOICE QUESTIONS (compulsory)****UNIQUE ASSIGNMENT NUMBER: 654402****DUE DATE: 12 August 2015****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 instructions regarding the answering of this assignment**

- (1) This assignment consists of 20 multiple choice questions.
- (2) This assignment covers topics 1-7 of the study guide.

**QUESTION 1****20 marks****REQUIRED**

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

1. 1
2. 3

(1 mark per question)

- 1.1 To determine whether refunds granted to customers were properly approved, the internal auditor should vouch accounts receivable entries to...

1. sales invoices.
2. remittance advices.
3. shipping documents.
4. credit memos.

- 1.2** A major reason for establishing an internal audit activity is to...
1. relieve overburdened management of the responsibility of establishing effective controls.
  2. safeguard resources entrusted to the organization.
  3. ensure the reliability and integrity of financial and operational information.
  4. evaluate and improve the effectiveness of control processes.
- 1.3** An internal auditor engages in the preparation of income tax forms during the tax season. For which of the following activities will the internal auditor most likely be in violation of the IIA Code of Ethics?
1. Writing a tax guide intended for publication and sale to the general public.
  2. Preparing the personal tax return, for a fee, for one of the organization's division managers.
  3. Teaching an evening tax seminar, for a fee, at a local University.
  4. Preparing tax returns for elderly citizens, regardless of their associations, as a public service.
- 1.4** Engagement observations and recommendations emerge by a process of comparing what should be and what is. In determining "what should be" during an engagement to review an organization's treasury function, which of the following is the least desirable criterion against which to judge current operations?
1. The operations of the treasury function as documented during the last engagement.
  2. Organizational policies and procedures delegating authority and assigning responsibilities.
  3. Finance textbook illustrations of generally accepted good treasury function practices.
  4. Codification of best practices of the treasury function in relevant industries.
- 1.5** An engagement to review payroll is least likely to include...
1. tests of computations for gross and net wages.
  2. comparison of payroll costs to budget.
  3. tracing a sample of employee names to employment records in the personnel department.
  4. observing the physical distribution of paychecks.
- 1.6** Internal auditors should design the scope of work in a consulting engagement to ensure that all the following will be maintained except...
1. independence.
  2. integrity.
  3. credibility.
  4. professionalism.

- 1.7** 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...
1. error rate.
  2. lower precision limit.
  3. confidence level.
  4. standard error of the mean.
- 1.8** If all other sampling size planning factors were exactly the same in attribute sampling, changing the confidence level from 95% to 90% and changing the desired precision from 2% to 4% would result in a revised sample size that would be...
1. larger
  2. smaller.
  3. unchanged.
  4. indeterminate.
- 1.9** Monetary-unit sampling is most useful when the internal auditor...
1. is testing the accounts payable balance.
  2. cannot cumulatively arrange the population items.
  3. expects to find several material misstatements in the sample.
  4. is concerned with overstatements.
- 1.10** Which technique is most appropriate for testing the quality of the preliminary survey of payment vouchers described in an internal control questionnaire?
1. Analysis.
  2. Evaluation.
  3. Verification.
  4. Observation.
- 1.11** Which of the following is not a role of the internal audit activity in best practice governance activities?
1. Support the board in enterprise-wide risk assessment.
  2. Ensure the timely implementation of audit recommendations.
  3. Monitor compliance with the corporate code of conduct.
  4. Discuss areas of significant risks.
- 1.12** Controls may be classified according to the function they perform, for example, as detective, preventative, or directive. Which of the following is a directive control?
1. Monthly bank statement reconciliations.
  2. Dual signatures on all disbursements over a specific amount.
  3. Recording every transaction on the day it occurs.
  4. Requiring all members of the internal audit activity to be CIAs.

**1.13** Enterprise risk management.....

1. guarantees achievement of organizational objectives.
2. requires establishment of risk and control activities by internal auditors.
3. involves the identification of events with negative impacts on organizational objectives.
4. includes selection of the best risk response for the organization.

**1.14** The manager of a production line has the authority to order and receive replacement parts for all machinery that requires periodic maintenance. The internal auditor received an anonymous tip that the manager ordered substantially more parts than were necessary from a family member in the parts supply business. The unneeded parts were never delivered. Instead, the manager processed receiving documents and charged the parts to machinery maintenance accounts. The payments for the undelivered parts were sent to the supplier, and the money was divided between the manager and the family member. Which of the following internal controls would have most likely prevented this fraud from occurring?

1. Established predefined spending levels for all vendors during the bidding process.
2. Segregating the receiving function from the authorization of parts purchases.
3. Comparing the bill of lading for replacement parts to the approved purchase order.
4. Using the company's inventory system to match quantities requested with quantities received.

**1.15** Which of the following controls could be used to detect bank deposits that are recorded but are never made?

1. Establishing accountability for receipts at the earliest possible time.
2. Linking receipts to other internal accountabilities, for example, collections to either accounts receivable or sales.
3. Consolidating cash receiving points.
4. Having bank reconciliations performed by a third party.

**1.16** Management can best strengthen internal control over the custody of inventory stored in an off-site warehouse by implementing...

1. reconciliations of transfer slips to/from the warehouse with inventory records.
2. increases in insurance coverage.
3. regular reconciliation of physical inventories to accounting records.
4. regular confirmation of the amount on hand with the custodian of the warehouse.

**1.17** Which of the following is an appropriate statement of an engagement objective?

1. To observe the physical inventory count.
2. To determine whether inventory stocks are sufficient to meet projected sales.

3. To search for the existence of obsolete inventory by computing inventory turnover by product line.
4. To include information about stock outs in the final engagement communication.

**1.18** All of the following are potential security issues for e-commerce except...

1. correct identification of transacting parties.
2. proliferation of computer viruses.
3. determining who may rightfully make transaction decisions.
4. verification of payment data.

**1.19** One of the purposes of the International Standards for the Professional Practice of Internal Auditing ("the Standards") is to...

1. encourage the professionalization of internal auditing.
2. establish the independence of the internal audit activity and emphasize the objectivity of internal auditing.
3. encourage external auditors to make more extensive use of the work of internal auditors.
4. establish the basis for evaluating internal audit independence.

**1.20** Ordinarily, what source of information should most affect the internal auditors conclusions?

1. External.
2. Inquiry.
3. Oral.
4. Written.

**Some questions were adapted from Gleim: CIA Exam Review**

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## Semester 2: Compulsory Assignment 02

### ASSIGNMENT 02: ESSAY TYPE QUESTIONS

UNIQUE ASSIGNMENT NUMBER: 654414

DUE DATE: 09 September 2015

#### Instructions:

- (1) Consult *My studies @ Unisa* for instructions on how to submit written assignments.

#### Special instructions regarding the answering of this assignment

- (1) This assignment covers the whole syllabus.
  - (2) All questions must be answered.
  - (3) Only selected questions will be marked.
- This assignment forms part of your final examination preparation and is a timely opportunity to identify any topics that may be causing you problems.
  - Make sure that you answer all the questions. Only a selection of questions will be marked by your lecturers and the marks you receive for these questions will constitute the mark for the assignment. No marks will be given for any questions that have been left unanswered.
  - Please assess those questions that have not been marked by your lecturers on your own by comparing your answers to the key for this assignment, provided in Tutorial Letter 202/2/2015.
  - Your marks for this assignment will be an indication to you of your knowledge of the module and you will be left with enough time to refine your knowledge before the beginning of the examinations.

### QUESTION 1

15 marks

#### REQUIRED

For each subsection of this question, select only **one** alternative that you consider to be the most correct answer. Then write down, as your answer, the number of the subsection and the letter preceding the selected alternative. Answer the subsections of this question in numerical sequence. For example:

1.4 A

1.5 B

Each question counts 1½ marks.

- 1.1 An engagement objective to verify that the correct goods or services are received on time, at the right price and in the right quantity. Based on this objective, the function to be reviewed is the...
- A receiving department.
  - B manufacturing department.
  - C purchasing department.
  - D payroll department.
- 1.2 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 ...
- A goods receiving clerk.
  - B sales clerk.
  - C inventory control clerk.
  - D accounts receivable clerk
- 1.3 The annual internal audit plan is normally compiled on the basis of ...
- A what was done in the previous year.
  - B the organisation's overall risk assessment.
  - C special requests from management and the audit committee.
  - D the availability of resources.
- 1.4 The **major** difference between statistical and non-statistical sampling is that, within statistical sampling, ...
- A the internal auditor can always get a smaller sample size.
  - B the internal auditor can always express an opinion at 100% confidence level.
  - C the internal auditor can direct the sample towards those items that carry greater risk.
  - D the internal auditor can explicitly quantify the likelihood of the sample being non-representative.

- 1.5** Select the alternative that correctly completes the following sentence:  
A prerequisite for a risk analysis is ...
- A. the establishment of an internal audit activity.
  - B. the establishment of organisational objectives.
  - C. the establishment of control procedures and/or control activities.
  - D. establishing that a monitoring system exists.
- 1.6** To properly control working papers, the internal auditor should **not** ....
- A. share the results of an audit with the auditee.
  - B. permit access to auditors from the South African Revenue Service if and when required.
  - C. make them available to people who do not have the authority to use them.
  - D. permit access to external auditors.
- 1.7** Which one of the following irregularities will probably not be detected by a system of internal control?
- A. Duplicate payments to suppliers.
  - B. Theft by an employee.
  - C. Theft by a group of employees who collaborate.
  - D. Unauthorised payments.
- 1.8** Which one of the following alternatives is a key issue to consider in developing audit objectives?
- A. The qualifications of the audit staff selected for the engagement.
  - B. The auditee's objectives and control structure.
  - C. Recommendations of the auditee's employees.
  - D. The recipient of the internal audit report.



- 1.9** In order to identify the amount of obsolete inventory that may exist in an organisation, the internal auditor probably would collect evidence using all of the following procedures except:
- A. Inspection.
  - B. Confirmation.
  - C. Re-computation.
  - D. Analytical review.
- 1.10** Which one of the following alternatives is a primary advantage of an internal control questionnaire?
- A. It reduces the risk of overlooking important aspects in the system.
  - B. It provides a clear picture of the relationships that exist between the various controls.
  - C. It forces the internal auditor to acquire a full understanding of the system.
  - D. The negative responses indicate the only areas needing further internal audit attention.

## QUESTION 2

**20 marks**

The payroll for the weekly wages of Make It (Pty) Ltd, a medium size manufacturing company, contains the following information:

- employee name and number
- rates of pay
- hours worked
- gross wages
- various deductions
- net pay

The payroll is prepared automatically by computer from the following:

- ✓ Employee details updated by the personnel section, including new appointments and resignations.
- ✓ Details of hours worked as per clock cards, which are authorised by the senior foreman and, in the case of overtime, by the factory manager. (The clocking in and out function is supervised by the junior foreman.)
- ✓ An authorised master file which lists each employee's wage rate.
- ✓ Details of deductions to be made from employees' gross wages updated by the personnel section.

- ✓ Various tables, for example PAYE.

The payroll is then presented to the factory manager who, after reviewing it, hands it to Franky Fredericks, the wages clerk. Franky Fredericks obtains a cheque for the total net wages from the financial accountant, which he then cashes in the presence of a security guard. He then makes up the wage packets which he distributes, in the presence of the appropriate foreman and a security guard, to the weekly paid employees, who sign on the payroll on receipt of their wages.

Unclaimed wage pay packets are handed to the financial accountant's secretary, who agrees them to the payroll. She signs the payroll to acknowledge receipt thereof and then enters them in a register.

You are recently appointed and need to show to management how internal auditing can add value to the organisation. A few months into the current year you are planning your wages audit for the year. You have obtained an understanding of the wages systems and controls and are satisfied that they are reasonably reliable.

## **REQUIRED**

**Marks**

- 2.1** Discuss how internal auditing assists the management of an organisation. (6)
- 2.2** Describe the audit procedures which you will conduct to ensure the accuracy and validity of the wage payments. (14)

## **QUESTION 3**

**18 marks**

At Stay With Us Hotel, management noticed that not all expenses incurred during a guest's stay is being paid upon checking out. Management approached you to help them identify the possible problems.

When you investigated the process the hotel followed, you found the following:

- When a guest checks-in, an account is opened against the room number in which the guest will stay.
- All expenses incurred by the guest can be billed to his/her room.
- A guest must check-out by 11:00 on the day of departure.
- Services that will be billed extra are the following:
  - the bar fridge in the room
  - the bar in the entertainment area
  - dinner
  - room service
  - laundry

The bar fridge in the room is inspected after 12:00 each day. The used items are identified by housekeeping and a record thereof is given to reception to add to the guest's account.

- The guest must sign the bill and provide his/her room number at the bar in the entertainment area before he/she leaves. When the cash-up is done at the bar, the signed slip is given to reception to add to the guest's account. The bar is usually manned by only one waiter.
- The bill at the restaurant where dinner is served must be signed by the guest before he/she leaves. The guest must also provide his/her room number to ensure that the bill is added to the correct account. When the cash-up is done at the restaurant, the signed slip is given to reception to add to the guest's account.
- When the food ordered from room service is delivered to the guest's room, a bill is also handed to him/her to sign as proof of acceptance of the expense. The signed slip is then handed to reception to be added to the guest's account.
- When the guest wants laundry done, he/she must complete a slip identifying the pieces that will be laundered. This slip indicates the cost associated with the service. The slip must be signed by the guest as acknowledgement of the cost. This slip is handed in at reception by the laundry service and will be billed to the guest's account.
- At reception all bills received before 22:00 are added by the night shift personnel. Bills received after 22:00 will be added by the staff during the next night shift.

**REQUIRED****Marks**

- |            |  |     |
|------------|--|-----|
| <b>3.1</b> | Define the concept of risk assessment as stated in COSO.   | (3) |
| <b>3.2</b> | Provide <b>three (3)</b> audit objectives for the audit of guests' accounts.   | (3) |
| <b>3.3</b> | Identify <b>six (6)</b> risks in the process used by personnel at the Stay with Us Hotel, which could lead to lead to expenses not being paid by guests. | (6) |
| <b>3.4</b> | For each of the risks you have identified in question 3.3, identify one control to be implemented to address the risk.                                   | (6) |

**Question 4****17 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.

**YOU ARE REQUIRED TO** answer the following questions regarding audit sampling.

- |            |   |     |
|------------|---|-----|
| <b>4.1</b> | What is sampling risk?  | (2) |
| <b>4.2</b> | Reduce all steps in an audit sampling exercise to 4 broad stages. | (2) |
| <b>4.3</b> | What are the 5 factors to consider when planning an audit sample? | (5) |

- 4.4 What are the two characteristics which a sampling approach (method) must have to be regarded as statistical sampling? (2)

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

**Factor**

- 4.5 A decrease in the total misstatement that the auditor is willing to accept (tolerable misstatement). (2)
- 4.6 A decrease in the amount of misstatement the auditor expects to find in the population. (2)
- 4.7 Stratification of the population when appropriate. (2)

**YOU ARE REQUIRED TO** 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 5**

**27 marks**

Patula Industries Ltd is a JSE listed manufacturing company. They have always complied with sound corporate governance principles, with the exception of the internal audit function. In the past the board has taken the view that if the external auditors do their job properly, then there is no need for internal auditors. After complaints about this policy from a number of shareholders, Patula Industries Ltd has decided to establish an internal audit function.

As an independent corporate governance consultant, you were requested to attend a meeting of the board to answer any questions the directors might have. The following questions were put to you:

- 5.1 Expressed simply, what is the difference between the internal and external audit functions? (2)
- 5.2 How frequently will internal audit report to us (the board)? (2)
- 5.3 Internal audit used to be compliance based but now it is risk based! Why must internal audit now use the risk based approach and not the compliance based approach? (2)
- 5.4 What are the key attributes of the internal audit function? (2)
- 5.5 How can we as a board provide the necessary 'conditions' for internal audit to attain and retain the status it requires to fulfill its role? (6)
- 5.6 The board will need to appoint a chief audit executive, what will we be looking for in this person? name 4 attributes. (2)
- 5.7 This all sounds impressive but how will having an internal audit function help us (the board) discharge our governance responsibilities? (4)

**5.8** Could the board not just engage our external auditors to carry out the internal audit function? (2)

**5.9** What key elements of information will we receive in a finding? (3)

**YOU ARE REQUIRED TO** answer the questions put to you by the board.

## **7. CONCLUSION**

Do not hesitate to contact your lecturer by email if you are experiencing problems with the content of this tutorial letter or any aspect of the module.

I wish you a fascinating and satisfying journey through the learning material and trust that you will complete the module successfully.

Enjoy the journey!

Sumaya Jaffer

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