



## QUESTION 1

15 marks

### REQUIRED

For each subsection of this question, select only **one** alternative that you consider the most correct alternative. Then write down, as your answer, the number of the subsection and the letter that precedes your 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 statements is true?

- A Effectiveness is the relationship between planned outputs and planned inputs
- B Economy is the relationship between actual inputs and planned outputs
- C Effectiveness is the relationship between actual outputs and planned outputs
- D Economy is the relationship between actual outputs and planned outputs

1.2 You are the internal auditor for Plantland. Plantland specialises in distributing various plants to different nurseries. You are conducting an operational audit on the distribution process of Plantland. You believe that the process can be improved, but the management team is resistant to change. Indicate the technique which would **best** overcome the manager's resistance to change.

- A Involving the managers in the operational audit and subsequent decision making
- B Interviewing each manager individually to discuss their concerns.
- C Reporting the problem to the board of directors and the audit committee
- D Coercing the managers through threats

1.3 Which one of the following questions refers to the "effect" section of an audit finding?

- A What is the significance?
- B Why did it happen?

- C What should the position be?
  - D What is the standard of comparison?
- 1.4** In reporting there are three different stages of importance insignificant, significant and material Which one of the following alternatives relates to the material stage of importance?
- A Indicates that a control has a more than remote likelihood of failing and that the impact of its failure is more than trivial.
  - B Indicates that a control has a more than remote likelihood of failing and that the impact of its failure exceeds the materiality threshold
  - C Indicates that a control has a remote likelihood of failing or that the impact of its failure is trivial
  - D Indicates that a control has a poor likelihood of failing or that the failure is insignificant
- 1.5** Internal auditors perform both assurance engagements and consulting engagements Which one of the following alternatives would be classified as an assurance engagement?
- A Examining whether control procedures are mitigating the risks identified
  - B Conducting control self-assessment training
  - C Assisting in developing and drafting policies
  - D Providing advice to management on risk management, control and governance issues.
- 1.6** Audit risk is the risk that audit coverage will not address significant business exposures Which one of the following components does not form part of audit risk?
- A Inherent risk.
  - B Control risk
  - C Detection risk.
  - D Business risk

- 1.7** System development and implementation controls are examples of .
- A Application controls.
  - B Key controls
  - C General controls
  - D Secondary controls
- 1.8** Which one of the following alternatives is **not** an advantage of computer assisted audit techniques (CAATS)?
- A Too technical and complex for non-IS auditors
  - B Increased analytical abilities.
  - C Consistent application of audit procedures and techniques
  - D Improved integration of financial systems
- 1.9** Which one of the following is **not** mandatory guidance as prescribed by the International Professional Practices Framework (IPPF)?
- A Definition of internal audit
  - B The international standards.
  - C Code of ethics
  - D Practice advisories
- 1.10** Which one of the following alternatives describes inherent risk?
- A The risk that audit coverage will not address significant business exposures.
  - B The likelihood of a significant loss occurring before taking into account any risk-reducing factors
  - C The likelihood that the control processes established to limit or manage risk is ineffective
  - D The risk that a material problem that would affect the conclusion pertaining to an audit objective has occurred and was not found by the auditors

## QUESTION 2

25 marks

You are the internal audit manager of Seafront (Pty) Ltd. Seafront is a tourism company that consists of four holiday resorts situated in Cape Town and in Durban. Seafront's head office is based in Cape Town and consists of various departments which provide different kinds of services to their customers.

With the holiday season approaching, bookings will increase with 60% and the day visitors to the resort will increase by more than 100%.

Management requested you to perform a performance audit on the reservations process of Seafront.

Initial discussions with the manager of the reservations department revealed the following:

1. A call centre in Cape Town handles the reservations for all four resorts.
2. Once a customer phones, the call centre agent will confirm the availability. Once availability is confirmed a booking will be completed on the system.
3. Once the booking form has been completed, a copy of the booking will be emailed to the customer. The customer will sign the booking form and will email it back to the agent with a copy of the proof of payment. A 50% deposit is required to secure the booking.
4. Once the agent receives the signed form and proof of payment the status will be changed from pending to complete.
5. Once the outstanding 50% has been received the status will be changed to finalised.

The following initial observations were made:

A1 – During the past six months there was various “double bookings” made, especially bookings relating to the Durban resort. The manager of the call centre admitted that a system problem currently exists and that double bookings are not identified, thus allowing the agents to process more than one person to a room. You noted that the problem is due to outdated software.

### REQUIRED

Marks

- 2.1 Formulate **six (6)** audit procedures that could be used to provide assurance with regards to the *efficiency* of the call centre's reservations process (9)
- 2.2 Based on the observations made in A1, complete an audit finding practically

illustrating the different elements of an audit finding, **and list five (5)**  
characteristics of good internal audit reporting **(10)**

- 2.3** Formulate **four (4)** audit objectives that could be used in order to determine  
the effectiveness of Seafront's call centre operations **(6)**

### **QUESTION 3**

**19 marks**

You as the internal audit manager of Seafront (Pty) Ltd realised that all the departments within Seafront relies on information technology (IT). Most of the activities performed in Seafront are automated and it became clear that computer assisted audit techniques (CAATS) will be used when completing audits in the IT department.

The IT department of Seafront is responsible for all the IT requirements. During initial discussions with the IT manager, the manager indicates that Seafront is currently busy upgrading all their IT systems.

Due to the impact and extensive use of various systems and technology in Seafront's day to day business activities, the IT manager requested you to assist him during the upgrade of the on-line booking and self-help service systems.

The following information was obtained regarding the self-help system used by the IT department:

- Customers can use the on-line and self-help service to book their accommodation and various water activities that they would like to participate in. A link from Seafront's website will take them to the self-help service screen. All activities are booked and paid for online.
- Currently the IT department is in the process of upgrading the self-help system as the software is outdated. The IT department would also like to ensure that the system can handle the increase in demand during the approaching holiday season.

During the discussion with the manager of the IT department you explained that the role of the IT auditor is changing and that the managers of the self-help system are becoming the custodians of the internal controls that relate to the self-help service system.

You briefly listed the following controls that could be implemented when upgrading the self-service software:

1. The line manager should approve all application program changes.
2. Employees should be forbidden to eat at their workstations.

3. Masterfiles should be kept under the supervision of an independent person
- 4 All transactions should be authorised and approved by the manager responsible for the section
- 5 Management should review activity logs to identify any operators who have performed unauthorised actions

**REQUIRED**

**Marks**

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|------------|--|------------|
| <b>3.1</b> | Briefly explain the conditions that would indicate that the use of CAATS may be appropriate when auditing the IT department of Seafront Ltd  | <b>(6)</b> |
| <b>3.2</b> | For each of the controls listed in 1 to 5 above, indicate whether they are general or application controls.  | <b>(5)</b> |
| <b>3.3</b> | Briefly discuss the three performance implementation standards that specifically address the internal auditor's assurance engagement responsibilities regarding information systems and technology, and list <b>five (5)</b> IT-related responsibilities that an internal audit function should perform to fulfil its responsibilities | <b>(8)</b> |

**QUESTION 4**

**32 marks**

The internal audit department was recently requested to complete an audit on the reception and processes followed when receiving customers at the Cape Town resort of Seafront (Pty) Ltd

During the opening meeting with the management team it became clear that fraud is suspected with regard to the process when customers are arriving and settling their accounts. Management requested you to be extra vigilant when conducting the audit.

Management further explained that the following information was received through the fraud hotline and from interviews with staff at the front desk.

- Jane works the front desk at reception from 9 am to 5 pm on a daily basis. One of her colleagues noted that she would indicate to customers, wanting to settle their account in cash that the system was down. Jane would then take the cash and write a manual cash slip for the customer.
- Jane refuses to take lunch, claiming she is on a diet. She also takes full control of all cash transactions. Jane volunteers to work extra shifts and weekends.
- The colleague further noticed that Jane used two different manual cash books, which

look similar. The cash book Jane has been using is not the official cash book of Seafront (Pty). A recon was performed recently and it was noted that the money received did not match the deposits for the day.

- Jane also had dramatic lifestyle changes during the past few months, she bought a new and expensive car, new clothes and shoes. She boasted that she paid for everything in cash. When questioned about her lifestyle changes she explained that her husband is working more overtime.
- Management admitted that recons are not performed on a regular basis as they fully trust all their employees and they don't want to impose too many rules. No policies or procedures regarding the receiving of cash are available.

Upon completion of the audit you recommended to management that a fraud risk assessment should be conducted and that a fraud risk management programme should be implemented.

You further explained that fraud risk management emphasises the importance of a corporate culture that includes the board obtaining assurance about the ethical conduct of management and employees.

REQUIRED	Marks
4.1 List the warning signs given in the information in the scenario that could have aroused suspicion that Jane was involved in fraudulent activities	(8)
4.2 Briefly discuss <b>seven (7)</b> practical recommendations to improve internal controls related to the cash transactions.	(7)
4.3 Discuss, with reasons, whether Jane's actions with regard to the cash received can be classified as misappropriation. Motivate your answer.	(4)
4.4 Briefly discuss the key components of a fraud risk management program that Seafront should take into account when implementing their own fraud risk management program	(10)
4.5 List the <b>three (3)</b> key steps that Seafront should follow when conducting a fraud risk assessment	(3)



### QUESTION 5

**9 marks**

Management of Seafront (Pty) Ltd is hosting their annual teambuilding event at the Durban resort. All the employees of Seafront will attend the event and the resorts will be managed by skeleton staff.

The chief executive officer (CEO) approached you and requested that you do a short presentation at the teambuilding weekend. The CEO explained that this will provide you with an opportunity to “sell or promote” the internal audit activity.

The CEO suggested that the following points should be covered in your presentation as these are the main concerns raised by the different departments:

- Explain to the employees the nature and scope of internal auditing
- An organisation cannot achieve its objectives without effective risk management, control and governance processes. You need to explain terms such as governance, control and risk management.

#### REQUIRED

**Marks**

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|------------|---|------------|
| <b>5.1</b> | Briefly describe the nature and scope of internal audit services  | <b>(4)</b> |
| <b>5.2</b> | Briefly explain the terms governance, risk management and control | <b>(5)</b> |