

AUI3704

May/June 2017

MANAGING THE INTERNAL AUDIT ACTIVITY

Duration 2 Hours

100 Marks

EXAMINERS

FIRST

SECOND

MRS BM VAN WYK

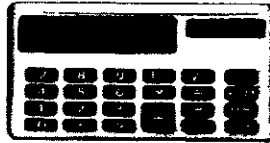
MS M EDWARDS

Use of a non-programmable pocket calculator is permissible.

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

[TURN OVER]

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THIS PAPER CONSISTS OF **SEVEN (7) PAGES**

QUESTION	MAIN TOPIC	MARKS
1	Multiple-choice questions	15
2	IIA Standards	25
3	Outsourcing	25
4	Internal audit activity	21
5	Supervision	14
		<u>100</u>

NOTE

Although the primary purpose of the examination is to test the candidate's knowledge and ability to apply the subject matter, the examiners will also take into consideration his or her ability to organise and present this knowledge in acceptable, written English

[TURN OVER]

QUESTION 1

15 marks

REQUIRED

For each subsection of this question, select only **one** alternative that you consider to be 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 for 1½ marks

1.1 The purposes of the Standards include all of the following except

- A guiding the ethical conduct of internal auditors
- B establishing the basis for the measurement of internal audit performance
- C stating the basic principles that represent the practice of internal auditing
- D fostering improved organisational processes and operations

1.2 A charter is being drafted for a newly formed internal auditing department. Which of the following **best** describes the appropriate organisational status that should be incorporated in the charter?

- A The chief audit executive should report to the chief executive officer but has access to the board of directors
- B The chief audit executive should be a member of the audit committee of the board of directors
- C The chief audit executive should be a staff officer reporting to the chief financial officer
- D The chief audit executive should report administratively to the chief operating officer

1.3 Your organisation has selected you to develop an internal audit activity. Your approach will most likely be to hire

- A internal auditors, each of whom possesses all the skills required to handle all engagements
- B internal auditors who collectively have the knowledge and skills needed to perform the responsibilities of the internal audit activity
- C qualified accountants because most internal audit work is accounting related
- D inexperienced personnel and train them the way the organisation wants them trained

[TURN OVER]

- 1.4** Internal auditors should be prudent in their relationships with people and organisations external to their employers. Which of the following activities would most likely **not** adversely affect an internal auditor's ethical behaviour?
- A Accepting compensation from professional organisations for consulting work
 - B Serving as consultants to competitor organisations
 - C Serving as consultants to suppliers
 - D Discussing audit plans or results with external parties
- 1.5** Exchange of engagement communications and management letters by internal and external auditors is
- A not addressed by the IIA Standards
 - B not consistent with the independence guidelines of the IIA Standards
 - C consistent with the coordination responsibilities of the chief audit executive
 - D a violation of the IIA Code of Ethics
- 1.6** Which of the following is the best source of a chief audit executive's information for planning staffing requirements?
- A Review of internal audit staff education and training records
 - B Discussions of internal audit needs with senior management and the board
 - C Interviews with existing internal audit staff
 - D Review internal audit staff size and composition of similarly-sized organisations in the same industry
- 1.7** The major reason for establishing an internal audit activity is to
- A safeguard resources entrusted to the organisation
 - B relieve overburdened management of the responsibility for establishing effective controls
 - C evaluate and improve the effectiveness of control processes
 - D ensure the reliability and integrity of financial and operational information
- 1.8** According to the Standards for the Professional Practice of Internal Auditing, supervision of an audit assignment should include
- A determining the audit working papers adequately support the audit findings
 - B assigning staff members to the particular engagement
 - C determining the scope of the audit
 - D appraising each auditor's performance on at least an annual basis

[TURN OVER]

1.9 Due professional care calls for

- A detailed reviews of all transactions related to a particular function
- B consideration of the possibility of material irregularities during every audit
- C infallibility and extraordinary performance when the system of internal control is known to be weak
- D testing in sufficient detail to give absolute assurance that noncompliance does not exist

1.10 Which of the following instruments will most likely be used to guide the staff of the internal audit activity in maintaining daily compliance with the standard of performance of the internal audit activity?

- A Performance appraisals
- B Policies and procedures
- C Position descriptions
- D Quality programme assessments

QUESTION 2

25 marks

The Board of Directors of a company that has expanded significantly over the past two years decided to restructure the company's internal audit activity

The company has been divided into operational subsidiaries for the various products that are manufactured by the company

Currently, the internal audit activity consists of the Chief Audit Executive and ten internal auditors who are all situated at the head office. The internal auditors report directly to the Chief Audit Executive, who takes overall responsibility for supervising all audit projects, and also signing all internal audit reports

During a meeting of the Board of Directors, where the restructuring of the internal audit activity was discussed, the Chief Operating Officer suggested that six of the internal audit activity's existing staff members should be transferred to the three operational subsidiaries, which are situated in different locations in the country

There will be two internal audit staff members per subsidiary. The Chief Audit Executive and four staff members will remain at the head office. According to him, the internal auditors at the subsidiaries would then be more in touch with the activities of the subsidiaries and would be able to initiate and perform audit projects as the need arises and when agreed on with the management of the subsidiaries. These internal auditors can then also provide consulting services relating to operations on which they had previously conducted assurance audits

[TURN OVER]

They must, however, still report to the Chief Audit Executive, by providing monthly feedback on the audit work they have performed, and by providing him with copies of all the audit reports that were issued by them

REQUIRED

Marks

On the basis of the *International Standards for the Professional Practice of Internal Auditing* and related practice advisories, criticise the above suggestion of the Chief Operating Officer, by referring to the Chief Audit Executive's responsibility with regard to

- | | | |
|-----|--------------------------------------|------|
| 2.1 | planning the internal audit activity | (10) |
| 2.2 | resource management | (10) |
| 2.3 | communicating engagement results | (5) |

QUESTION 3

25 marks

The audit committee requested the chief audit executive (CAE) of All Yours Ltd to perform an urgent audit of the human resource recruitment process. The only auditors available to conduct the engagement are one internal auditor who is studying towards a degree in internal auditing and one newly appointed trainee who has no experience in internal auditing at all. Because of other urgent business, the CAE, Lebogang Lulema, will also not be available to assist the team during the conduct of the audit.

At the same time as the request from the audit committee, the Information Systems Manager of All Yours Ltd has requested the CAE to develop the policy and procedures regarding the computer control environment, an area that is of particular interest to her. Lebogang has decided to outsource the auditing of the human resource recruitment process to an external service provider. She therefore, contacted three external service providers to obtain quotations to perform the audit of the human resource recruitment process. All three the external service providers meet the necessary requirements regarding independence and objectivity, and therefore they can be considered for the appointment to perform this engagement.

REQUIRED

Marks

- | | | |
|-----|--|-----|
| 3.1 | Indicate whether the CAE may outsource the auditing of the human resources recruitment process to an external service provider, providing full reasons for your answer in terms of the Standards and the Practice advisories | (5) |
|-----|--|-----|

[TURN OVER]

- 3.2 Evaluate, giving reasons, whether the CAE should accept the request to develop policies and procedures for the computer control environment. Base your answer on the International Professional Practices Framework (IPPF) and the information provided in this case study regarding All Yours Limited (10)
- 3.3 List the criteria according to which the CAE can assess whether the external service provider possesses the necessary knowledge, skills and other competencies, required to perform the audit of the human resources recruitment process, and explain how the CAE will go about doing this assessment in practice (10)

Structure your answer in the following format:

Criteria	Practical measures (how)
(1)	(1)

QUESTION 4

21 marks

You have been a senior internal auditor of ABC Limited for many years and have recently been promoted to chief audit executive (CAE). In the letter from the audit committee in which they congratulated you on your promotion, they referred to the internal auditor's role in assisting audit committees to achieve maximum effectiveness as well as the increased stature internal auditors may expect from successfully fulfilling their responsibilities. They also noted the fact that the tasks, responsibilities and goals of audit committees and internal auditing are closely linked in many ways.

REQUIRED

Marks

- 4.1 Discuss **eight (8)** different ways in which you as the CAE can help to alleviate specific concerns that hinder the audit committee members in exercising their responsibilities (16)
- 4.2 Explain what use a brochure about the internal auditing activity, explaining the activities and status of the internal auditing activity, can have in an organisation (2)
- 4.3 List the three areas in which audit committees exercise their responsibility (3)

[TURN OVER]

QUESTION 5

14 marks

You are employed as a senior internal auditor at Jackson 24 Limited, a company listed on the JSE. The Chief Audit Executive (CAE) assigned you to the audit of the company's inventory. During your initial meeting with the CAE, he gave you a time budget and suggested that you refer to the permanent audit file for guidance.

On completion of the audit, you submitted the working paper and the final audit report to the CAE for review.

Since you informed the CAE that you did not experience any problems with the audit, the CAE decided not to review the audit file and issued the report to management.

REQUIRED

Marks

Criticise and motivate your view of the CAE's decision, specifically with regard to adherence to the requirement of the Internal Auditing Standards regarding engagement supervision.

(14)