

Tutorial Letter 101/3/2017

The Internal Audit Process: Managing the Internal Audit Activity

AUI3704

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 AUI3704 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 **AUI3704** 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 to enable the students to demonstrate detailed knowledge, specific skills and applied competency in managing the internal audit activity.

2.2 Outcomes

- **Specific outcome 1:** Adhere to the International Professional Practices Framework (IPPF) of Internal Auditing when managing the internal audit function.
- **Specific outcome 2:** Consider the significant factors impacting on the management of an internal audit activity.
- **Specific outcome 3:** Understand the dynamics involved when establishing the internal audit activities.
- **Specific outcome 4:** Ability to apply all relevant principles with regard to managing the internal audit function.

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

Course coordinator

Ms BM van Wyk

E-mail: 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: AUI3704

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
- purhasescript@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

Library Web co-coordinator

Inter-library loans enquiries

Enquiries about subject databases

Library information desk

Enquiries about training presented by the library

Send a question to the library staff

bib-oasis@unisa.ac.za

bib-web@unisa.ac.za

libr-ill@unisa.ac.za

bib-dbase@unisa.ac.za

bib-help@unisa.ac.za

bib-oplei@unisa.ac.za

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.

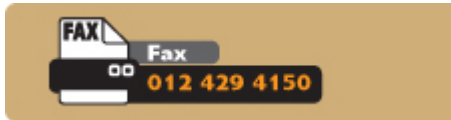
Students can also SMS enquiries directly to:

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.

- Auditing: Legislation and standards. Latest edition. 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)

There are not electronic reserves for this module.

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.

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) are 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)	10 March 2017 Unique number: 700196 Multiple choice questions.	11 August 2017 Unique number: 748363 Multiple choice questions.
02 (10 % of year mark)	11 April 2017 Unique number: 698082	8 September 2017 Unique number: 771093

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)

10 March 2017

Unique number: 700196

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)

1.1 Which one of the following statements is true with respect to due professional care?

1. An internal auditor should perform detailed tests of all transactions before communicating results.
2. An engagement communication should never be viewed as providing an infallible truth about a subject.
3. An item should not be mentioned in an engagement communication unless the internal auditor is absolutely certain of the item.
4. An internal auditor has no responsibility to recommend improvements.

1.2 Which of the following values is not one of the values needed by a company to be a “responsible corporate citizen” according to the King III report?

1. Openness.
2. Fairness.
3. Accountability.
4. Responsibility.

- 1.3** The King III report refers to integrated reporting. The concept of integrated reporting refers to the company reporting upon...
1. economy, efficiency and effectiveness.
 2. governance, risk management and control processes.
 3. financial performance as well as the sustainability of the company.
 4. financial performance as well as compliance with laws and regulations.
- 1.4** You have been asked to develop an internal audit department for your organisation. Which one of the following approaches would you most likely follow as far as it concerns the appointment of audit personnel?
1. Appoint mostly accountants, since most audit work is accounting related.
 2. Appoint internal auditors each of whom possess all the skills required to handle all audit assignments.
 3. Appoint internal auditors who collectively have the knowledge and skills needed to complete internal audit assignments.
 4. Appoint inexperienced personnel and train them the way the organisation wants them trained.
- 1.5** Which one of the following alternatives expresses the main reason for co-ordinating the efforts of the internal and external auditor?
1. To increase the reliability of the published financial statements.
 2. To minimise the annual external audit fees.
 3. To increase the effectiveness of internal financial controls.
 4. To obtain maximum effectiveness and efficiency of the total audit effort
- 1.6** Which one of the following audit committee activities would be of the greatest benefit to the internal audit activity?
1. Review and endorsement of all internal auditing reports prior to release.
 2. Review and approval of audit programmes.
 3. Support for appropriate follow-up of recommendations made by the internal audit activity.
 4. Assurance that the external auditor will rely on the work of the internal audit activity whenever possible.
- 1.7** Internal audit demonstrates its professionalism by...
1. meeting ISO 9000 quality standards.
 2. reviewing operational systems to determine their effectiveness and efficiency.
 3. adhering to the Standards for the Professional Practice of Internal Auditing.
 4. meeting deadlines on audits performed.

1.8 When assessing the risk associated with an activity, an internal auditor should...

1. determine how the risk should best be managed
2. provide assurance on the management of the risk.
3. design controls to mitigate the identified risks.
4. update the risk management process based on risk exposures.

1.9 Which one of the following is **not** a role of the internal audit activity according to best practice governance activities?

1. Ensure the timely implementation of audit recommendations.
2. Support the board in enterprise-wide risk assessment.
3. Monitor compliance with the corporate code of conduct.
4. Discuss areas of significant risks.

1.10 Engagement working papers are reviewed to ensure that...

1. No issues are open at the conclusion of the field work.
2. They are properly cross-referenced to the engagement communications.
3. They meet or exceed the work standards of the organisation's external auditors.
4. They are properly referenced for easy follow-up within the next year.

1.11 The chief audit executive (CAE) of a newly internal auditing department is seeking management approval of a charter. What is the authoritative source for seeking such approval?

1. The appropriate Practice Advisories, which require the CAE to take that course of action.
2. According to the Standards, no approval is necessary.
3. The Code of Ethics, which requires internal auditors to document company policy.
4. The Standards for the Professional Practice of Internal Auditing (Standards), which clearly place that responsibility on the CAE.

1.12 The charter of the internal auditing department should...

1. provide recommended formats to report significant audit findings and recommendations.
2. authorise access to records, personnel, and physical properties relevant to the performance of audits.
3. describe the audit programs to be carried out.
4. define the audit department's work schedules, staffing plan, and financial budget.

1.13 A professional engineer applied for a position in the internal auditing department of a high-technology firm. The engineer became interested in the position after observing several internal auditors while they were auditing the engineering department. The chief audit executive...

1. should not hire the engineer because of the lack of knowledge of internal auditing standards.
2. may hire the engineer in spite of the lack of knowledge of internal auditing standards.
3. may hire the engineer in spite of the lack of knowledge of internal auditing standards.
4. may hire the engineer in spite of the lack of knowledge of internal auditing standards.

1.14 Which of the following statements is **true** regarding coordination of internal and external audit efforts?

1. The director of internal audit should not give information about illegal acts to an external auditor because external auditors may be required to report the matter to the board and/or regulatory agencies.
2. Ownership and the confidentiality of the external auditor's working papers prohibit their review by internal auditors.
3. The chief audit executive should determine that appropriate follow-up and corrective action was taken by management where required on matters discussed in the external auditor's management letter.
4. If internal auditors provide assistance to the external auditors in connection with the annual audit, the audit work is not subject to the Standards for the Professional Practice of Internal Auditing

1.15 An auditor's objectivity could be compromised in **all** of the following situations **except**...

1. a conflict of interest.
2. reliance on outside expert opinion when appropriate.
3. auditor assumption of operational duties on a temporary basis.
4. auditee familiarity with auditor due to lack of rotation in assignments.

1.16 Internal auditors should be prudent in their relationships with persons and organisations external to their employers. Which of the following activities would most likely **not** adversely affect an internal auditors' ethical behaviour?

1. Serving as consultants to competitor organisations.
2. Accepting compensation from professional organisations for consulting work.
3. Serving as consultants to suppliers.
4. Discussing audit plans or results with external parties.

1.17 The scope of internal auditing work encompasses a systematic, disciplined approach to evaluating and improving the adequacy and effectiveness of all of the following factors **except** that of...

1. financial statements.
2. risk management.
3. corporate governance.
4. control.

1.18 The Standards for the Professional Practice of Internal Auditing require an internal auditor to exercise due professional care in performing internal audits. This includes...

1. evaluating established operating standards and determining whether those standards are acceptable and are being met.
2. establishing direct communication between the chief audit executive and the board of directors.
3. accumulating sufficient evidence so that the auditor can give absolute assurance that irregularities do not exist.
4. establishing suitable criteria for education and experience for filling internal audit positions.

1.19 According to the Standards for the Professional Practice of Internal Auditing. The independence of internal auditors is achieved through...

1. staffing and supervision.
2. organisational status and objectivity.
3. human relations and communications.
4. continuing education and due professional care.

1.20 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 into the charter?

1. The chief audit executive should be a member of the audit committee of the board of directors.
2. The chief audit executive should report to the chief executive officer but have access to the board of directors.
3. The chief audit executive should be a staff officer reporting to the chief financial officer.
4. The chief audit executive should report to an administrative general manager..

---X---

8.5.2 Semester 1: Compulsory assignment 02**ASSIGNMENT 02:****Semester 1****(10% of the year mark)****11 April 2017****Unique number: 698082****QUESTION 1****20 marks**

You are currently an internal auditor working for a consulting firm specialising in internal audit. Part of your duties requires you to provide consulting advice to internal audit departments regarding their activities and their subsequent compliance to the code of ethics based on their activities. You have been assigned to XYZ Limited to advise their internal audit department.

The Chief Audit Executive (CAE) has provided you with a list of activities of his staff which he would like ethical clearance on. He requires you to indicate to him if the activity is in violation of the code of ethics and, if so, the principle and rule that has been violated and the correct action that should have been taken.

- a) During one of the reviews conducted by one of the senior internal auditors, the auditor believed that toxic waste was being dumped by the organisation in violation of the law. Out of loyalty to the organisation, no information regarding the dumping was collected.
- b) The CAE disagrees with the engagement client about the observations and recommendations in a sensitive area. The CAE discusses the detail of the observations and the proposed recommendations with a fellow CAE from another organisation to confirm that he is doing the correct thing.
- c) During the course of an audit, one of our internal auditors discovers that a clerk is embezzling funds from the organisation. Although this is the first embezzlement ever encountered and the organisation has a security department, the internal auditor decides to interrogate the suspect.
- d) One of the senior internal auditors has been approached by a smaller company in the similar business area to serve on the board of directors. The smaller company competes in many of the same markets as the company the internal auditor currently works for. The internal

auditor accepted the position as he believes it will not directly affect the company as he does not work in sales.

- e) In a review of travel and entertainment expenses, a certified internal auditor questioned the business purposes of a director's reimbursed travel expenses. The director promised to compensate for the questioned amounts by not claiming legitimate expenses in the future. The internal auditor accepted this agreement as the person in question is a director in a high position at the company.

Required

20 Marks

Indicate, for each scenario, if it is in violation of the code of ethics and, if so, the principle and rule that has been violated and the correct action that should have been taken. P your answer according to the following table:

Scenario	Violation (1)	Principle or rule (2)	Correct action (1)
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Question 3

40 Marks

You are a senior trainee in a firm of registered accountants. One of your partners Mornè Olivier has been approached by the chairman of Bulle (Pty) Ltd, a large textile manufacturer, to accept an appointment as a non-executive director of the company. There is no connection between Mornè Olivier or your firm and Bulle (Pty) Ltd. Mornè Olivier had been recommended to the chairman of Bulle (Pty) Ltd by a mutual friend.

Before considering the appointment, Mornè Olivier informed the chairman that he would like to get an idea of the company's adherence to sound corporate governance and particularly to King III. The chairman replied that he personally didn't know too much about "that stuff" but that Mornè Olivier could come to the offices and look through the minutes of directors' meetings if it would help. Mornè Olivier has sent you to "have a look" and report back. The company secretary provided you, inter alia, with the following minutes:

Minutes of the second and final meeting of the Board of Directors for the financial year 2016 held at 9am on 15 May 2016 at the company's head office.

1. Attendance

**quorum*

All directors either attended the meeting or tendered their apologies. As five directors were present, the quorum of four was met.

**chairperson:* Hennie Meyer, the chairperson of the board was present.

**other directors present*

- Wynand Nel : chief financial officer and deputy chairperson
- Frik Welsh : production director
- Akon Ndungane : non executive director
- Lucas Watson : human resources director

**apologies*

- Barry Botha : non-executive director and Bulle (Pty) Ltd's major supplier
- Pieter Spies : non executive director and 20% shareholder in Bulle (Pty) Ltd
- Danny Rewsow : marketing director

**also in attendance*

- Hennie Adams : internal audit manager
- Victor Hatfield : company secretary

2. *Company Performance*

Mr Hennie Meyer, in his capacity as chief executive officer, delivered his report on the company's performance for the year to date.

Copies of this report and all Board Committee reports have been lodged with the company secretary.

3. *Board Committee Reports*

Reports from all Board Committees were tabled at the meeting.

Audit committee - Mr Wynand Nel, in his capacity as chairperson, outlined the successes of the audit committee over the year which he attributed largely to the appointment to the committee at the start of the year of Mr Barry Botha, whom he said had brought a wealth of experience to the committee. He also explained that much of the audit committee's time had been taken up reviewing the reports on the various compliance audits which he had instructed internal audit to carry out, based on a random selection of systems and cycles within the company. Hennie Adams, the internal audit manager, and third member of the three person audit committee, then outlined the discussions held with the external auditors pertaining to the upcoming audit of the annual financial statements for the 30 June 2014 year-end.

4. *Resolutions – maintenance contract*

It was unanimously agreed by all of those directors present that the R10 million machinery maintenance contract be awarded to Akon Ndungane's company Wingz (Pty) Ltd for the next three years, as this company had provided excellent service in the past.

The Chairperson thanked everyone for their attendance at the meeting and closed the meeting at 10.35am.

Required

40 Marks

You are required to critically evaluate Bulle (Pty) Ltd's corporate governance and compliance with the requirements of King III based on the information presented above. You may assume that the minutes are an accurate reflection of all the matters discussed at the meeting.

(Adapted from Graded Questions on Auditing)

Question 4**12 Marks**

You are currently an internal auditor at XYZ Company. You have been assigned to the internal audit of the revenue and receipts cycle. As part of the preliminary planning you have been asked to identify risks based on the policy of the company. The following is some of the controls in place with regards to the revenue and receipts cycle:

- a. All orders are recorded on a sequentially numbered sales order form.
- b. No orders must be accepted by the order clerk if the customer is not an approved customer.
- c. Before processing any orders, checks are made by the credit department to establish that the customer has not supplied any fictitious details and the customer's credit status is satisfactory.
- d. Supervisory checks are conducted to ensure that all goods picked are supported by a signed picking slip.
- e. The warehouse clerks compares the goods picked to the picking slip.
- f. The warehouse clerk also prepares the delivery note from the picking slip and cross references it.

Required**Marks**

- | | | |
|------------|--|------------|
| 4.1 | Briefly describe the steps that should be carried out in the risk management process? | (6) |
| 4.2 | For each of the controls listed above (a-f), identify the risk that the control is mitigating. | (6) |

Question 5**28 Marks**

You are a newly appointed chief audit executive (CAE) and during a recent meeting with the chairperson of the audit committee, he requested you to clarify all uncertainties around the IIA standards that were raised at the last audit committee meeting.

Required**Marks**

- | | | |
|------------|---|------------|
| 5.1 | Differentiate between internal quality assessment and external quality assessment. | (5) |
| 5.2 | Describe the benefit of external quality assessments? | (7) |
| 5.3 | Explain how and when you as the CAE can use the term "conforms with the International Standards for the Professional Practice of Internal Auditing" (IIA Standards) | (3) |
| 5.4 | Define an internal audit charter and the purpose thereof | (5) |
| 5.5 | Should the CAE outsource certain audit to an external service provider? | |

Provide full reasons in terms of the Standards. (5)

- 5.6 Discuss the reasons according to the IIA Standards why audit engagements need to be properly supervised? (3)

---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)

11 August 2017

Unique number: 748363

QUESTION 1

20 marks

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 1
1.2 2

Each question counts for 1½ marks.

- 1.1 The International Professional Practice Framework (IPPF), from the Institute of Internal Auditors, is comprised of mandatory guidance and strongly recommended guidance. Which **one** of the following is **not** an instance of mandatory guidance?
1. Code of ethics
 2. Standards
 3. Practice Advisories
 4. Definition of internal auditing
- 1.2 During an audit of the procurement function, an internal auditor has identified a few red flags that might indicate fraud occurring in the function. During lunch, she discusses these red flags with her colleague. Which of the principles, from the code of ethics, has she violated?
1. Integrity
 2. Confidentiality
 3. Objectivity
 4. Competence
- 1.3 A quality assessment measures the efficiency and effectiveness of the internal audit department. Which **one** of the following is not a criterion of an internal quality assessment?
1. Ongoing monitoring of the performance of the internal audit activity.
 2. The assessment being conducted by an independent reviewer, which means that there is no real or an apparent conflict of interest.
 3. Periodic reviews to evaluate conformance with the definition of internal auditing, the code of ethics and the standards.
 4. That the assessment may be conducted by the internal audit activity itself or members of staff in the organisation.

- 1.4 Risk management is the management process used in any organisation to manage the risks that have an impact on the achievement of objectives. According to King III, who is ultimately responsible for risk management?
1. The Board
 2. Senior management
 3. The Audit Committee
 4. The Risk Management Committee
- 1.5 According to King III, risk assessments must be conducted on an annual basis. What is the main purpose of a risk assessment?
1. To determine the risk appetite of the entity that will assist the Board in making decisions.
 2. To determine the residual risk of each of the high risk areas.
 3. To consider the extent to which potential events have an impact on the achievement of objectives.
 4. To determine possible controls to mitigate the high risks affecting the organisation.
- 1.6 King III indicates that a company should compile an integrated report. An integrated report requires the company to report on...
1. Risk management and sustainability
 2. Risk management and compliance
 3. Finance and sustainability
 4. Finance and IT governance
- 1.7 The Public Financial Management Act (PFMA) is a compulsory act for government departments and public entities. Which one of the following are NOT included in the scope of the PFMA?
1. To regulate financial management in the national government and provincial governments.
 2. To ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively.
 3. To provide for the responsibilities of persons entrusted with financial management in those governments.
 4. To establish treasury norms and standards for the local sphere of government.

- 1.8 The purpose, authority and responsibility of the internal auditing department are defined in the charter. The charter should achieve all but which **one** of the following?
1. Authorise access to records, personnel and physical properties relevant to the performance of the audit.
 2. Establish the department's position within the organisation.
 3. Define the scope of the internal audit activities.
 4. Provide a summary of the department's audit work schedule.
- 1.9 The Chief Audit Executive (CAE) can outsource the internal audit engagement activity if he/she complies with certain standards. Which of the following standards is applicable to outsourcing?
1. Internal auditors should, for all engagements, ensure that they have access to and use specialised skills.
 2. Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.
 3. Engagements must be performed with proficiency and due professional care.
 4. Internal auditors exhibit the highest level of professional integrity, objectivity and competence.
- 1.10 Engagements should be supervised to ensure all but which of the following?
1. That objectives are achieved.
 2. That conformance with practice advisories is assured.
 3. That staff are developed.
 4. That quality is assured.
- 1.11 Internal auditors are required to have an understanding of which organisational discipline?
1. Human resources techniques.
 2. Management principles.
 3. Taxation principles.
 4. Marketing techniques.
- 1.12 Which **one** of the following alternatives **best** defines control?
1. Control is the result of proper planning, organising and directing by management.
 2. Controls are statements of what the organisation chooses to accomplish.
 3. Control is provided when cost-effective measures are taken to restrict deviations to a tolerable level.
 4. Control accomplishes objectives and goals in an accurate, timely and economical fashion.

1.13 The scope of an internal auditing assurance engagement should also include consideration of ...

1. relevant physical properties under third-party control.
2. only those systems and records under the control of the engagement client.
3. engagement observations, conclusions, and recommendations.
4. final engagement communications.

1.14 Which **one** of the following statements is **true** with respect to due professional care?

1. An internal auditor should perform detailed tests of all transactions before communicating results.
2. An engagement communication should never be viewed as providing an infallible truth about a subject.
3. An item should not be mentioned in an engagement communication unless the internal auditor is absolutely certain of the item.
4. An internal auditor has no responsibility to recommend improvements.

1.15 The IIA's Code of Ethics includes two essential components, namely principles that are relevant to the profession and practice of internal auditing and...

1. the attribute standards describing what attributes internal auditors should have.
2. rules of conduct that describe the behaviour norms that are expected of internal auditors.
3. the International Standards for the Professional Practice of Internal Auditing.
4. the performance standards.

1.16 King III places emphasis on the fact that the company's ethics are effectively managed and that the company is seen to be a responsible corporate citizen. Who is responsible for ensuring this?

1. Senior management
2. The audit committee
3. The board
4. The ethics

1.17 According to King III, the audit committee should report to the shareholders on its statutory duties. The report should include all of the following, except ...

1. how its duties were carried out.
2. if the committee is satisfied with the independence of the external auditor.
3. the effectiveness of the internal audit department.
4. whether the internal financial controls are effective.

1.18 Mr Jones takes out insurance on his car so that if he were to have an accident, he would not have to pay a large sum of money all at once. This type of strategy to mitigate the risk is known as ...

1. controlling the risk.
2. transferring the risk.
3. accepting the risk.
4. avoiding the risk.

1.19 The Department of Energy does not have the resources for an internal auditing activity and has therefore placed a tender in the *Government Gazette* to contract the service to a private company. This type of structure is known as ...

1. a co-sourced function.
2. a full in-house function.
3. sharing of the function.
4. an outsourced function.

1.20 The chief audit executive (CAE) is responsible to an individual in the organisation with sufficient authority to do all the following, except ...

1. ensuring appropriate action on audit recommendations.
2. promoting independence.
3. ensuring adequate consideration of audit reports.
4. developing and approving the charter.

---X---

8.5.4 Semester 2: Compulsory assignment 02 (93 marks)

ASSIGNMENT 02: PORTFOLIO

Semester 2

(10% of the year mark)

8 September 2017

Unique number: 771093

QUESTION 1**25 marks**

You are currently an internal auditing student attending an internal audit vacation programme for upcoming internal auditors. Part of the programme involves dividing you into groups that must answer questions on internal auditing. The theme for the current session is the code of ethics and the following is asked of you:

REQUIRED**Marks**

The following scenarios depict various situations that internal auditors are faced with in the workplace. Indicate, for each scenario, if it is in violation of the code of ethics and, if so, the principle and rule that has been violated and the correct action that should have been taken.

- 2.1 An internal auditor spends the weekend at a five-star hotel with his family. The weekend is a gift from the hotel manager before the internal auditor starts with an audit of the hotel the following week. (4)
- 2.2 During an audit of the human resources department, the internal auditor finds that some of the key controls with regard to contracts have been circumvented. The human resource manager is good friends with the internal auditor and therefore the internal auditor, in confidence, discusses the possibility of fraud with him. (4)
- 2.3 A chief audit executive is under pressure to complete his audit plan for the year. One of the audits that have to be completed is the audit of the information technology (IT) infrastructure of the company. The only auditor available is a junior internal auditor who started recently at the firm. The chief audit executive assigns the auditor to complete the audit as it will be better to have some findings in a report than nothing at all. (4)
- 2.4 In order to save time and budget, an internal auditor uses an audit programme compiled three years ago to audit the credit purchases function of an organisation. The auditor feels that the controls have not changed drastically and that the programme can therefore be used. (4)
- 2.5 An internal auditor has been assigned to audit the finance function of XYZ Limited. The finance function is headed by the internal auditor's brother-in-law. The internal auditor is excited as he will be working with his brother-in-law with whom he has an excellent relationship. (4)

QUESTION 3

25 marks

Sweeties and More is an upcoming manufacturing company that has recently expanded. As part of their expansion, they have decided on expanding their internal audit activity. They have hired you in the position of Chief Audit Executive (CAE) to assist with the expansion. Through various discussions with senior management and review of documentation you have identified the following with regard to the internal audit activity:

- 3.1 There is currently an existing charter in place. The following area of the charter was highlighted for review by you:

AUTHORITY

The CAE and staff of the Internal Audit activity are authorised for the following:

- ✓ Access to all functions, records, property and personnel with approval from each of the line managers under review.
- ✓ Access to audit committee meetings by invitation from the audit committee secretary.
- ✓ The Board will allocate resources, set frequencies, select subjects, determine scopes of work and apply the techniques required to accomplish audit objectives.
- ✓ They will under no circumstance disrupt workflow in production units. Assistance from employees will be at an absolute minimum and subject to approval from the line manager.

- 3.2 Through a discussion with the current internal audit staff, the following was noted with regard to the utilisation of staff within the activity:

- a. There is currently not enough staff in the department and therefore the junior auditors are often allowed to complete audits without any supervision. The junior internal auditors have all cum lauded their degree and therefore have the necessary knowledge.
- b. The current annual internal audit plan is still in the first phase of audit reviews. The staff complement cannot complete the plan due to resource constraints. This has been reported to the audit committee who has asked the internal audit activity to present options to solve the resource constraints.

- 3.3 The current reports that are submitted to the audit committee with the following statement: "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing." All the members of the internal audit activity are Certified Internal Auditors and therefore the previous senior internal auditor felt that it is appropriate to use such wording.

- 3.4 There is currently no co-ordination between the internal audit activity and external audit. The external auditors believe that their job requires them to provide an opinion on the

financial statements of the company and therefore cannot rely on the internal audit activity's work. The internal auditors believe that the external auditors are too financially focused and therefore they cannot rely on their work.

REQUIRED	Marks
3.1 Discuss the adequacy of the authority of the current internal audit activity based on the extract from the charter.	(5)
3.2 Explain if supervision is required to be given to the junior internal auditors. Refer to the relevant Standards.	(4)
3.3 Explain the different options available in establishing a structure for the internal audit department and identify the one that would be most suitable for the company.	(5)
3.4 Explain how and when you as the CAE can use the term "conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> " (IIA Standards). Based on your explanation indicate whether the internal audit activity can use the statement.	(3)
3.5 Discuss whether the internal and external auditors respectively, can benefit from a co-ordinated audit effort or if it is more beneficial for them to keep their work separate.	(8)

QUESTION 4 9 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 since the inception of the internal audit activity, five years ago.

Owing to your extensive knowledge of the organisation, the procurement manager has asked you to evaluate the methods he uses to encourage his staff to achieve the objectives set for the procurement function.

One of the procurement function's objectives is to ensure speedy delivery of goods requested by the manufacturing staff. He decided on this objective 18 months ago. A customer satisfaction survey showed that the manufacturing staff was pleased with the increased efficiency of the procurement department and that out-of-stock situations in manufacturing had been reduced by 35%.

Due to the increase in the demand for the speedy delivery of goods, the company often runs out of raw materials for the production of certain goods and pressure is then placed on the procurement staff to obtain the raw materials.

The staff in the procurement department is less satisfied and complain about having to frequently work overtime. Overtime paid to the procurement staff has increased with eight hours per person per month on average.

Initially the staff was pleased with the additional income they had earned while working overtime, but recently they have become increasingly dissatisfied and are simply refusing to work any overtime.

REQUIRED

Marks

- 4.1 Describe **six (6)** risks that may be attributed directly to the objective of the speedy delivery of goods requested by the manufacturing staff. (9)

QUESTION 5

34 marks

Instalimited is a global operation known for its online application that allows users to post random images and texts on a web server. The board of Instalimited has adopted the principles of King III. They have developed a few questions regarding their current application of King III to be answered by your consulting firm. They have asked you to indicate whether they are in violation of the code and – wherever they are in violation – to provide an explanation of how they can apply the code correctly.

- 5.1 We have established a board of directors in the company. The board is made up of two non-executive directors and four executive directors. Could you please provide more clarity with regard to the composition of the board? (2)
- 5.2 We are struggling to identify the criteria we should apply when selecting a director. What are some guidelines we may use when choosing directors for the board? (2)
- 5.3 We have implemented the practice of meeting at least four times a year. Will four times a year be sufficient? (1)
- 5.4 The chairman of the audit committee is the chief financial officer as we believe that he is in the best position to answer questions with regard to audit findings. This was a unanimous decision taken by senior management. (2)
- 5.5 We have recently set up a risk management department within the organisation. However, we are unsure of the scope of risk management and would therefore like guidance on a few key areas or dimensions. Are there a few steps that you could provide to us with regard to the scope of risk management? (5)
- 5.6 How do we continually monitor risk management? (8)
- 5.7 Internal audit activity is deciding between a compliance-based plan and a risk-

based plan. We understand that a risk-based plan is of more value and we would therefore like to know the objectives of a risk-based plan. (4)

- 5.8 We have decided to not implement a combined assurance plan as there are no perceived benefits that we can gather. Is this a wise decision on our part? If not, please motivate further. (10)

REQUIRED

Provide the board with the relevant advice with regard to each of the statements above. Your advice should be in accordance with the principles of King III.

---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.