

# **Tutorial Letter 201/2/2018**

## **The Internal Audit Process: Managing the Internal Audit Activity**

### **AUI3704**

#### **Semester 2**

#### **Department of Auditing**

**IMPORTANT INFORMATION:**

**SUGGESTED SOLUTION TO ASSIGNMENT 01 OF 2018 FOR THE SECOND SEMESTER.**

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## SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 01 OF 2018

This tutorial letter provides feedback on compulsory Assignment 01. You need to study the contents of this tutorial letter carefully because it will provide you with valuable insight and assist you with your examination preparation. The study references are provided to assist you. Therefore, please refer to them to obtain a better understanding of the suggested solution.

- 1.1    **1**  
**Reference:** Study unit 2, Code of Ethics and study unit 3. Standards for the professional practice of internal auditing (IPPF).
- 1.2    **1**  
**Reference:** Study unit 9, Organisational Status of the internal audit activity.
- 1.3    **2**  
**References:** Study unit 11, the personnel component of the internal audit activity.
- 1.4    **1**  
**Reference:** Study unit 2, the Code of Ethics.
- 1.5    **3**  
**Reference:** Study unit 12, coordination of the audit functions.
- 1.6    **2**  
**Reference:** Study unit 12, planning and Study unit 13, management of the personnel component.
- 1.7    **3**  
**Reference:** Study unit 9, foundation for establishing an internal audit activity.
- 1.8    **1**  
**Reference:** Study unit 3, Standard 2340 and Study unit 16, execution of the audit engagement.
- 1.9    **2**  
**Reference:** Study unit 3, Standard 1200
- 1.10   **2**  
**Reference:** Study unit 3, Standard 2040 and Study unit 13, policies and procedures.
- 1.11   **4**  
**Reference:** Study unit 7  
Option 4 is correct. The CAE is responsible for providing appropriate engagement supervision. The extent of supervision required will depend on the proficiency and experience of the internal auditors and the complexity of the engagement.  
Option 1 is incorrect. Whether the engagement involves possible fraud on the part of management is less important for determining the extent of supervision than the proficiency of the internal auditors and the complexity of the engagement.

Option 2 is incorrect. Whether the engagement involves possible violations of laws or governmental regulations is less important for determining the extent of supervision and the proficiency of the internal auditors and the complexity of the engagement.

Option 3 is incorrect. The internal audit activity's prior experience in dealing with the particular engagement client is less important for determining the extent of supervision than the proficiency of the internal auditors and the complexity of the engagement.

#### 1.12 1

**Reference:** Study unit 7

Option 1 is correct. A work programme must be adapted to the specific needs of the engagement after the internal auditor establishes the engagement objectives and scope and determine the resources required. A pro forma work programme is not appropriate for a complex or changing environment. Its stated objectives and procedure may no longer be relevant.

Option 2 is incorrect. A work programme must allow for variations resulting from changing circumstances and varied conditions.

Option 3 is incorrect. A generalised programme cannot consider variations in circumstances and conditions.

Option 4 is incorrect. Every aspect of an operation need not be examined. Only those likely to conceal problems and difficulties must be considered.

#### 1.13 2

**Reference:** Study unit 7

Option 2 is correct. Observations are included in engagement communications. According to IG 2410-1, observations have four attributes: criteria, condition, cause and effect. Thus, omitting the criteria used in making an evaluation or verification results in a failure to support observations properly.

#### 1.14 3

**Reference:** Study unit 6

Option 3 is correct. The internal auditor discusses conclusions and recommendations at appropriate levels of management before issuing final engagement communications. Discussion with the engagement client not only provides a quality control review but is also a courtesy that enhances the internal auditor-client relationship. In addition, the exit meeting is an important aspect of the participative approach to internal auditing because it involves the client in the engagement process as well as in an important aspect of the participative approach to internal auditing because it involves the client in the engagement process as well as in any recommended changes arising from the engagement. People are more likely to accept changes if they have participated in the decisions and in the methods used to implement changes. Moreover, the participative approach tends to generate feelings of mutual liking and trust that contribute to an amicable relationship which produces a more favourable environment for the engagement effort.

Option 1 is incorrect. An interim engagement communication would have been used to obtain immediate action on a recommendation.

Option 2 is incorrect. The distribution of communications is not a secondary purpose of an exit meeting.

Option 4 is incorrect. Senior management ordinarily should be given a summary of the results.

1.15 1

**Reference:** Study unit 6

Option 1 is correct. The CAE must establish and maintain a system to monitor the disposition of results communicated to management.

Option 2 is incorrect. Management is responsible for ensuring action on all internal audit observations and recommendations, but some actions may take time to complete. It is not feasible to expect that all will be resolved when an audit committee meets.

Option 3 is incorrect. The internal audit activity must monitor progress. Waiting for management confirmation may lead to harmful delays.

Option 4 is incorrect. Management should report reasons for inaction.

1.16 4

**Reference:** Study unit 6

Option 4 is correct. The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management of the board.

Option 1 is incorrect. Reports must be presented to senior management.

Option 2 is incorrect. The report is not restricted to expenditures and financial budgets. Information about significant deviations from the approved audit plan and staffing plans also is included.

Option 3 is incorrect. The information need not be limited to completed engagements and observations available in published engagement communications.

1.17 4

**Reference:** Study unit 1

Option 4 is correct. This scenario violates the integrity principle. According to the IIA Code of Ethics, Rules of Conduct: Integrity: "Internal auditors shall perform their work with honesty, diligence, and responsibility."

Option 1 is incorrect since the scenario is a required action and not a violation of the integrity principle.

Option 2 is incorrect. This scenario violates the objectivity principle. According to the IIA Code of Ethics, Rules of Conduct: Objectivity: "Internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation."

Option 3 is incorrect. This scenario violates the confidentiality principle. According to the IIA Code of Ethics, Rules of Conduct: Confidentiality: "Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties."

1.18 2

**Reference:** Study unit 7

According to IG 2330-1, engagement working papers generally:

- aid in the planning, performance, and review of engagements. (Option 3)
- provide the principal support for engagement results. (Option 4)
- document whether engagement objectives were achieved.
- support the accuracy and completeness of the work performed.
- provide a basis for the internal audit activity's quality assurance and improvement programme.
- facilitate third-party reviews. (Option 1)

Option 2 is therefore correct because it is the only option that is not a function of working papers.

1.19 **3**

**Reference:** Study unit 6

Option 3 is correct. Summary reports highlighting engagement results are appropriate for levels of management above the engagement client and can be issued separately from or in conjunction with the final report. Summary reports are thus usually intended for senior management or the board.

Option 1 is incorrect. Only interim reports may be oral. The final report must be written.

Option 2 is incorrect. Interim reports are used to communicate urgent information, changes in engagement scope and engagement progress.

Option 4 is incorrect. Senior management are often too busy to read an entire report.

1.20 **2**

**Reference:** Study unit 6

Option 2 is correct. IIA Standard 2410 states the following: "Internal auditors must communicate the results of engagements" and "Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans."

## Conclusion

It is important to review the feedback contained in this tutorial letter and compare it with your own answers.

You are welcome to contact us should you have any queries.

We wish you every success in your studies.