

Tutorial Letter 201/1/2018

Internal Auditing: Theory & Principles

AUI2601

Semester 1

Department of Auditing

This tutorial letter contains important information about your module.

Bar code

CONTENTS

1	BRIEFING	3
2	KEY TO ASSIGNMENT 01/2018 (FIRST SEMESTER)	3

1 BRIEFING

This assignment consisted of 20 multiple-choice questions which you had to answer on a mark-reading sheet. The assignment was marked electronically and you should have received a report on the mark you obtained for the assignment. At this stage we would like to provide the correct answers to the various questions.

The mark you received for this assignment will contribute towards your year mark, and your year mark will contribute 10% towards your final mark for this module.

We trust that you found this assignment interesting and challenging. We hope you are looking forward to learning more about the practice of internal auditing in this module.

Lecturer: AUI2601

2 KEY TO ASSIGNMENT 01/2018 (FIRST SEMESTER)

Note the following in the comments below:

The **Standards** refers to the International Standards for the Professional Practice of Internal Auditing

CAE stands for the chief audit executive

IAA stands for the internal audit activity

Question	Correct answer	Learning unit reference
1.1	1	Learning unit 6

Option 1 is correct. Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest.

Thus, the internal auditor's promotion may create a bias.

Option 2 is incorrect. Budget restrictions do not constitute an impairment of independence or objectivity.

Option 3 is incorrect. An internal auditor may recommend, but not implement, standards of control and still maintain objectivity.

Option 4 is incorrect. An internal auditor may review contracts prior to their execution.

Question	Correct answer	Learning unit reference
1.2	1	Learning unit 7
<p>Option 1 is correct. Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance. Internal auditors must be proficient in applying internal auditing standards, procedures, and techniques in performing engagements.</p> <p>Option 2 is incorrect. Only if internal auditors work extensively with financial records and reports must they have proficiency in accounting principles and techniques.</p> <p>Option 3 is incorrect. The required competencies include an understanding of, not proficiency in, management principles.</p> <p>Option 4 is incorrect. Internal auditors ordinarily need not be proficient in marketing techniques.</p>		
Question	Correct answer	Learning unit reference
1.3	3	Learning unit 7

Option 3 is correct. Internal auditors must be alert to those conditions and activities where irregularities are most likely to occur and must identify inadequate controls. Thus, the internal auditor did not exercise due professional care. Cash has a high degree of inherent risk and should therefore be subject to strict controls. Access to cash and the record-keeping functions should be separated regardless of the personal qualities of the individuals involved. That the internal auditor trusts the clerk is irrelevant. Management still needs to be aware that internal control over receivables is inadequate.

Option 1 is incorrect. The auditor's engagement observation is inappropriate given the lack of segregation of functions.

Option 2 is incorrect. No indication is given that irregularities have occurred.

Option 4 is incorrect. Annotating the working papers does not indicate that the auditor exercised due professional care. Cash has a high inherent risk of irregularities, and professional judgment and alertness are necessary.

Question	Correct answer	Learning unit reference
1.4	2	Learning unit 7
<p>Option 2 is correct.</p> <p>Options 1 is incorrect. Establishing the basis for the evaluation of internal audit performances is one of the IIA's stated purposes of the <i>Standards</i>.</p> <p>Option 3 is incorrect. Delineating basic principles that represent the practice of internal auditing is one of the IIA's stated purposes of the <i>Standards</i>.</p> <p>Option 4 is incorrect. Fostering improved organisational processes and operations is one of the IIA's stated purposes of the <i>Standards</i>.</p>		
Question	Correct answer	Learning unit reference
1.5	1	Learning unit 6

Option 1 is correct. The primary purpose of a code of ethical behaviour for a professional organisation is to promote an ethical culture among professionals who serve others.

Option 2 is incorrect. National standard-setting bodies, not a code of ethics, provide guidance for effective accounting practice.

Option 3 is incorrect. A code of ethics does not provide the framework within which accounting policies are developed.

Option 4 is incorrect. The primary purpose is not for interviewing new accountants.

Question	Correct answer	Learning unit reference
1.6	1	Learning unit 6

Option 1 is correct. Rule of Conduct 2.3 under the objectivity principle states, "Internal auditors shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Question	Correct answer	Learning unit reference
1.7	1	Learning unit 5

Option 1 is correct. The principle of confidentiality permits the disclosure of confidential information if there is a legal or professional obligation to do so.

Option 2 is incorrect. Rule of Conduct 3.2 prohibits internal auditors from using information for personal gain.

Option 3 is incorrect. Rule of Conduct 2.2 prohibits internal auditors from accepting anything that may impair or be presumed to impair their professional judgment.

Option 4 is incorrect. Rule of Conduct 2.3 under the objectivity principle requires internal auditors to disclose all material facts known to them that, if not disclosed, might distort the reporting of activities under review.

Question	Correct answer	Learning unit reference
1.8	3	Learning unit 6

Option 3 is correct. Rule of Conduct 4.1 under competency principle states, "Internal auditors shall engage only in those services for which they have the necessary knowledge, skills and experience." Internal auditors may not have or are not expected to have knowledge equivalent to that of a person whose primary responsibility is to detect and investigate fraud.

Option 1 is incorrect. The requirement to perform work with diligence does not override the competency Rule of Conduct or the need to use good judgment.

Option 2 is incorrect. Loyalty is better exhibited by consulting professionals and knowing the limits of competence.

Option 4 is incorrect. The internal auditor may violate the suspect's civil rights as a result of inexperience.

Question	Correct answer	Learning unit reference
1.9	4	Learning unit 1

Option 4 is correct. CAE describes a person in a senior position responsible for effectively managing the IAA in accordance with the internal audit charter and the Definition of Internal Auditing, the code of Ethics, and the *Standards*. The CAE or others reporting to the CAE will have appropriate professional certifications and qualifications. The specific job title of the CAE may vary across organisations.

Option 1 is incorrect. The CAE reports most of the time, but may be represented by someone else. This is not the only duty of the CAE.

Option 2 is incorrect. The CAE is not responsible for promoting risk management, but contributes to the effectiveness and efficiency thereof.

Option 3 is incorrect. The CAE may employ more qualified internal auditors to assist in executing the audit plan.

Question	Correct answer	Learning unit reference
1.10	4	Learning unit 7

Option 4 is correct. The internal audit charter is a formal document that defines the IAA purpose, authority, and responsibility. The internal audit charter establishes the IAA position within the organisation; authorised access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Option 1, 2 and 3 is incorrect.

Question	Correct answer	Learning unit reference
1.11	2	Learning unit 1

Option 2 is correct. It is according to the IIA Standards 1110.

Option 1, 3 and 4 is incorrect.

Question	Correct answer	Learning unit reference
1.12	2	Learning unit 6

Option 2 is correct. The CAE may overstate the amount recovered or the recommended future savings as a result of engagements.

Option 1 is incorrect. The audit committee or salary administration committee who is a subcommittee of the board of directors must determine the CAE's salary and bonus.

Option 3 is incorrect. The scope of internal auditing should include evaluating controls and account balances.

Option 4 is incorrect.

Question	Correct answer	Learning unit reference
----------	----------------	-------------------------

1.13	1	Learning unit 7
<p>Option 1 is correct. Assurance services are defined in the glossary to the Standards as “an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, or control processes for the organisation. Examples may include financial, performance, compliance, system security, and due diligence engagements.”</p> <p>Option 2 is incorrect. Consulting services provide advice.</p> <p>Option 3 is incorrect. Financial and business data is also measured and communicated during consulting services.</p> <p>Option 4 is incorrect. Assurance services do not only include compliance engagements.</p>		
Question	Correct answer	Learning unit reference
1.14	3	Learning unit 7
<p>Option 3 is correct. The Code, Definition, and Standards are mandatory; the Practice Advisories are not.</p> <p>Option 1, 2 and 4 is incorrect.</p>		
Question	Correct answer	Learning unit reference
1.15	1	Learning unit 7
<p>Option 1 is correct. This arrangement provides for the most operating flexibility and independence.</p> <p>Option 2 is incorrect. That would place the director in a position of operational control.</p> <p>Option 3 is incorrect. It is not the best choice; it limits influence and independence.</p> <p>Option 4 is incorrect. It is not the best choice; it limits influence and independence.</p>		
Question	Correct answer	Learning unit reference

1.16	2	Learning unit 7
Option 2 is correct. Per the IIA <i>Standards</i> , the director of internal auditing is responsible		

for providing appropriate audit supervision.

Option 1 is incorrect. Although the audit committee may determine whether due care is being exercised by the CAE, audit supervision is not the committee's responsibility.

Option 3 is incorrect. Although the audit supervisor may act on behalf of the CAE, the CAE is ultimately responsible for audit supervision.

Option 4 is incorrect. It is the senior or in-charge auditor who is in need of supervision, for which the CAE is responsible.

Question	Correct answer	Learning unit reference
1.17	1	Learning unit 1

Option 2 is correct. Services to all members of the organisation is the pervasive theme of the introduction to the *Standards*.

Option 1, 3 and 4 is incorrect. Each has just one of the specific activities outlined in the *Standards*.

Question	Correct answer	Learning unit reference
1.18	4	Learning unit 7

Option 4 is correct. Organisational status and objectivity permit internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits.

Option 1 is incorrect. Staffing and supervision relate to the professional proficiency of the internal auditing department.

Option 2 is incorrect. Continuing education and due professional care is related to the professional proficiency of the internal auditor.

Option 3 is incorrect. Human relations and communications relate to the professional proficiency of the internal auditor.

Question	Correct answer	Learning unit reference
1.19	3	Learning unit 7

Option 3 is correct. In determining the resources needed to perform the engagement, the CAE must consider knowledge, skills, and other competencies of the internal audit

staff when selecting internal auditors for the engagement. The CAE considers the use of external resources when additional knowledge and competencies are required.

Option 1 is incorrect. Not performing the engagement is unacceptable, especially for a high-risk area.

Option 2 is incorrect. Engagements must be properly supervised. The IAA has no one to provide this supervision.

Option 4 is incorrect. Limiting the scope of the engagement is done only when the requisite skills are not available even from external resources. If the scope is limited, management must be informed of the constraint in an interim report.

Question	Correct answer	Learning unit reference
1.20	1	Learning unit 7

Option 1 is correct. Among other things, work programs state the objectives of the engagement, identify technical requirements, and state the nature and extent of testing required.

Option 2 is incorrect. Engagement working papers include results of control evaluations.

Option 3 is incorrect. The work program may not be consistent from year to year given the changing conditions to which the engagement client must adapt. The work program must reflect the current year's situation. Thus, standardisation may not be appropriate.

Option 4 is incorrect. The risk assessment in the planning phase helps to identify objectives, a step that must be taken before the work program can be developed.

(

---©---

UNISA 2018