



## JUNE 2013 EXAMINATION

DATE: 7 JUNE 2013

TIME: 14H00 – 17H00

TOTAL: 100 MARKS

DURATION: 3 HOURS

PASS MARK: 40%

(BUS-IA1)

## INTERNAL AUDITING 1

**THIS EXAMINATION PAPER CONSISTS OF 4 SECTIONS:**

<b><u>SECTION A:</u></b>	<b>CONSISTS OF:</b>	
	(i) 10 MULTIPLE-CHOICE QUESTIONS	(10 MARKS)
	(ii) 5 TRUE OR FALSE QUESTIONS	(10 MARKS)
	(iii) 10 MATCHING-STATEMENT QUESTIONS	(10 MARKS)
	ANSWER <u>ALL</u> THE QUESTIONS	
<b><u>SECTION B:</u></b>	<b>CONSISTS OF 2 SHORT QUESTIONS</b>	
	ANSWER <u>BOTH</u> QUESTIONS	(10 MARKS)
<b><u>SECTION C:</u></b>	<b>CONSISTS OF 2 LONG ANSWER QUESTIONS</b>	
	ANSWER <u>BOTH</u> QUESTIONS	(40 MARKS)
<b><u>SECTION D:</u></b>	<b>CONSISTS OF 2 INTERPRETATIVE QUESTIONS</b>	
	ANSWER <u>ONE</u> OF THE QUESTIONS	(20 MARKS)

### **INSTRUCTIONS:**

1. Read the following instructions *carefully* before answering the paper, as failure to act upon them will result in a loss of marks.
2. Write your answers in your answer book, which is provided in the exam.
3. Ensure that your name and student number are clearly indicated on your answer book.
4. Write your answers in either blue or black ink in your answer book.
5. Read each question very carefully before you answer it and number your answers *exactly* as the questions are numbered.
6. Begin with the question for which you think you will get the best marks.
7. Note the mark allocations for each question – give enough facts to earn the marks allocated. Don't waste time by giving more information than required.
8. You are welcome to use diagrams to illustrate your answers.
9. Please write neatly – we cannot mark illegible handwriting.
10. Any student caught cheating will have his or her examination paper and notes confiscated. The College will take disciplinary measures to protect the integrity of these examinations.
11. If there is something wrong with or missing from your exam paper or your answer book, please inform your invigilator immediately. If you do not inform your invigilator about a problem, the College will not be able to rectify it afterwards, and your marks cannot be adjusted to allow for the problem.
12. This paper may be removed from the examination hall *after* the examination has taken place.

**SECTION A****(30 MARKS)****ANSWER ALL THE QUESTIONS****(i) MULTIPLE-CHOICE QUESTIONS**

Choose the correct option for each of the following. Write only the question number and your chosen answer. For instance, if you think that the correct answer for number 1 is (a), then write it as 1. (a).

1. Which one of the following is not a requirement for 'quality information'?
  - (a) sufficiency
  - (b) quality
  - (c) competence
  - (d) relevance
2. The last phase in the BAIA is:
  - (a) organisation impact assessment.
  - (b) control strategy assessment.
  - (c) unit assessment reporting.
  - (d) follow-up assessment.
3. The first phase in the BAIA is:
  - (a) organisation impact assessment.
  - (b) control strategy assessment.
  - (c) unit assessment reporting.
  - (d) follow-up assessment.
4. The purpose of control is to provide managers with:
  - (a) effective control measures.
  - (b) reasonable assurance that performance objectives will be achieved.
  - (c) risk reduction measures.
  - (d) an effective strategy for assessing risk.
5. Quality control should be applied at:
  - (a) two levels.
  - (b) three levels.
  - (c) four levels.
  - (d) five levels.
6. General purpose financial statements usually exhibit attributes such as:
  - (a) clarity.
  - (b) neutrality.
  - (c) accountability.
  - (d) relevance.

7. A reasonable level of assurance is:
  - (a) to be reasonable in your assessment.
  - (b) to average risk by accepting a low level.
  - (c) to reduce risk to an acceptably low level.
  - (d) what the average person accepts.
  
8. Which of the following are the four main types of auditors?
  - (a) external, internal, government and CISA
  - (b) government, internal, certified and CISA
  - (c) internal, CISA, government, chartered auditors
  - (d) professional, internal, external and government
  
9. Assessing the effectiveness of controls is a part of:
  - (a) the control process.
  - (b) the management process.
  - (c) the auditing process.
  - (d) CSA.
  
10. Which one of the following is not an information gathering method?
  - (a) sampling
  - (b) data analysis
  - (c) inspection
  - (d) enquiry

[10]

**(ii) TRUE OR FALSE QUESTIONS**

Indicate whether the following statements are True or False. Motivate all your answers.

1. Risk avoidance occurs when a manager chooses to take an option when he or she knows there is a high risk in taking it.
2. Not all activities in an organisation can be controlled.
3. The auditor's job is to implement and manage controls.
4. When the actual performance and the required performance agree, the manager has no need to develop corrective action.
5. Recording information should only take place from the control assessment phases.

[5 × 2 = 10]

**(iii) MATCHING-STATEMENT QUESTIONS**

Match the statements in Column B to the statements in Column A. Write down the answers only, for example 1. (a).

Column A	Column B
1. the purpose of auditing is to improve	(a) sampling
2. for the auditor to form a valid conclusion, the sample must represent	(b) auditing
3. without information an auditor can not form	(c) feedback loop
4. sufficient information is	(d) factual, adequate and convincing
5. changing the nature of an activity is a	(e) random sampling
6. a means by which corrective action is fed back into the control system	(f) organisational performance
7. a technique used in inspection	(g) an objective opinion
8. the most valid sampling selection method	(h) risk
9. BAIA is the 'how' of	(i) control strategy
10. uncertainty is a characteristic of	(j) the whole population

[10]

[30]

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**SECTION B: SHORT QUESTIONS****(10 MARKS)**

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**ANSWER BOTH QUESTIONS**

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**QUESTION 1**

Inspection is a method of obtaining information. Name the three techniques used in inspection.

[3]

**QUESTION 2**

(a) Define the term 'audit sampling'.

(3)

(b) State the four selection methods available when applying sampling techniques.

(4) [7]

**[10]**

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**SECTION C: LONG ANSWER QUESTIONS****(40 MARKS)**

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**ANSWER BOTH QUESTIONS**

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**QUESTION 1**

- (a) Discuss the relationship between internal and external auditing. (6)
- (b) State the differences between internal auditing and external auditing with respect to the following: customer, focus, orientation, controls, fraud, independence and nature. (7 × 2 = 14) [20]

**QUESTION 2**

- (a) i. Any situation whereby the auditor compares a standard to a condition, gives rise to a finding. Identify and explain the two types of findings. (6)
- ii. What does the abbreviation OIA stand for? Explain why the auditor carries out the OIA. (4)
- (b) What does the abbreviation UIA stand for? Give the main inputs. (10) [20]

**[40]**

**SECTION D: INTERPRETATIVE QUESTIONS**

**(20 MARKS)**

**ANSWER ONE OF THE QUESTIONS**

**QUESTION 1**

Name the eight phases in the BAIA approach and explain what is meant by 'the integrated approach of the BAIA'.

[20]

**OR**

**QUESTION 2**

- (a) i. With reference to auditing, what is your understanding of the concept 'control'? (5)
- ii. If fraud was identified as a threat in your organisation, how would you minimise its effect on variability of performance? (10)
- (b) Name the five control strategies that are available to a manager. (5) [20]

**[20]**

**Section A: 30 marks**  
**Section B: 10 marks**  
**Section C: 40 marks**  
**Section D: 20 marks**  
**TOTAL: 100 MARKS**