



NOVEMBER 2013 EXAMINATION

DATE: 8 NOVEMBER 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:

| | | |
|-------------------|---|------------|
| SECTION A: | CONSISTS OF: | |
| | (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 | |
| SECTION B: | CONSISTS OF 5 SHORT QUESTIONS | |
| | ANSWER <u>ALL</u> THE QUESTIONS | (30 MARKS) |
| SECTION C: | CONSISTS OF 1 LONG ANSWER QUESTION | |
| | ANSWER THE QUESTION | (20 MARKS) |
| SECTION D: | CONSISTS OF 2 INTERPRETATIVE QUESTIONS | |
| | 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 of the following fraudulent entries is most likely to be made to conceal the theft of an asset?
 - (a) debit expenses and credit the asset
 - (b) debit the asset and credit another asset account
 - (c) debit revenue and credit the asset
 - (d) debit another asset account and credit the asset
2. An audit trail is necessary in order to:
 - (a) schedule and budget for audit assignments.
 - (b) show how and when items were reviewed.
 - (c) provide management with justification for an audit.
 - (d) provide the audit manager with audit results.
3. Risk:
 - (a) is the same as a threat.
 - (b) arises from uncertainty about performance.
 - (c) is not applicable to businesses.
 - (d) is only applicable to large blue chip companies.
4. According to the Statement on Internal Auditing Standards, a control is:
 - (a) something that excludes management.
 - (b) the same as Organisation Impact Assessment (OIA).
 - (c) the same as Control Strategy Assessment (CSA).
 - (d) any action taken by management to see that its objectives will be met.
5. To conduct the audit, the internal auditor:
 - (a) has limited available resources.
 - (b) does not need to plan.
 - (c) has to focus equally on all the units of the organisation.
 - (d) does not have to decide when to audit.
6. With risk acceptance:
 - (a) management does not accept any risk.
 - (b) management accepts the risk without taking any precautions to reduce it.
 - (c) the company will always go bankrupt.
 - (d) management cannot control the risk.

7. The Organisation Impact Assessment:
 - (a) should deliver working papers that record the results.
 - (b) assists the external auditor in finalising the external audit.
 - (c) assists the CEO during the annual general meeting of the company.
 - (d) is the same as the Unit Assessment Reporting.

 8. During the Unit Impact Assessment, the:
 - (a) internal auditor gets to know the mission of the unit.
 - (b) external auditor determines the planning of the internal auditor.
 - (c) CEO decides whether the audit should proceed or not.
 - (d) board of directors must sign off the internal audit report.

 9. The Control Strategy Assessment is:
 - (a) the second phase of the internal auditing process.
 - (b) the fourth phase of the internal auditing process.
 - (c) only necessary where risks have been identified by the auditor.
 - (d) the third phase of the internal auditing process.

 10. The Control Adequacy Assessment is:
 - (a) an assessment done by the internal auditor of the adequacy of existing controls in the unit.
 - (b) the third phase of the internal auditing process.
 - (c) the second phase of the internal auditing process.
 - (d) only necessary where risks have been identified by the auditor.
- [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 terms in Column B to the statements in Column A. Write down the answers only, for example 1. (a).

| Column A | Column B |
|---|--|
| 1. what the auditor needs to form an opinion | (a) confirmation |
| 2. enquiry requires a certain skill | (b) the right information |
| 3. examining a physical document or asset and evaluating it | (c) verifying |
| 4. written supporting documentation from an independent third party must be obtained and compared to the information supplied by the unit | (d) circumstances existing at the time the defect occurred |
| 5. seeing or a visual examination of certain items | (e) inspection |
| 6. confirming the truth and accuracy of something | (f) interviewing |
| 7. a meeting between an internal auditor and another member of the organisation in which the auditor's objective is to obtain information | (g) interviewing skills |
| 8. to be considered in the auditor's approach to deficiency findings | (h) working papers |
| 9. prepared from the launch of the internal audit until the writing of the final report | (i) non-verbal communication |
| 10. eye contact and personal appearance | (j) observing |

[10]

[30]

SECTION B: SHORT QUESTIONS**(30 MARKS)**

ANSWER ALL THE QUESTIONS

QUESTION 1

Define internal auditing.

[4]

QUESTION 2

What are the main objectives of internal control?

[5]

QUESTION 3

Briefly discuss the relationship between control and risk, in achieving the objectives of an organisation.

[6]

QUESTION 4

What is the control effectiveness assessment (CEA)?

[10]

QUESTION 5

What is the quality of performance assessment?

[5]

[30]

SECTION C: LONG ANSWER QUESTION

(20 MARKS)

ANSWER THE QUESTION

QUESTION 1

Discuss 'quality' with reference to the internal auditing process.

[20]

[20]

SECTION D: INTERPRETATIVE QUESTIONS**(20 MARKS)****ANSWER ONE OF THE QUESTIONS****QUESTION 1**

Jelly Bees is a charity whose constitution requires that it raise funds for educational projects. These projects seek to educate children and support teachers in certain countries. Charities in the country from which Ajio operates have recently become subject to new audit and accounting regulations. Charity income consists of cash collections at fund raising events, telephone appeals, and bequests (money left to the charity by deceased persons). The charity is small and the trustees do not consider that the charity can afford to employ a qualified accountant. The charity employs a part-time bookkeeper and relies on volunteers for fund raising. Your firm has been appointed as accountants and auditors to this charity because of the new regulations. Accounts have been prepared (but not audited) in the past by a volunteer who is a recently retired chartered accountant.

You are required to:

Describe the risks associated with the audit of Jelly Bees and explain the implications of these risks for overall audit risk.

[20]**OR****QUESTION 2**

- (a) You are an audit manager in Ron & Co. One of your audit clients, MistiRead Co, is a specialist supplier of crime fiction with over 120 000 customers. The company owns one large warehouse, which contains at any one time about 1 million books of up to 80 000 different titles. Customers place orders for books either over the internet or by mail order. Books are despatched on the day of receipt of the order. Returns are allowed up to 30 days from the dispatch date provided the books look new and unread.

Due to the high inventory turnover, MistiRead maintains a perpetual inventory system using standard 'off the shelf' software. Ron & Co has audited the system for the last five years and has found no errors within the software.

Continuous inventory checking is carried out by MistiRead's internal audit department.

You are currently reviewing the continuous inventory checking system with an audit junior. The junior needs experience in auditing continuous inventory checking systems.

You are required to:

Using the information above, explain the advantages of using a perpetual inventory system. (12)

- (b) After performing tests of controls, the auditor is of the opinion that audit evidence is not sufficient to support the audit opinion; in other words, many control errors were found.

You are required to:

Explain the actions that the auditor may now take in response to this problem. (8) [20]

[20]

Section A: 30 marks

Section B: 30 marks

Section C: 20 marks

Section D: 20 marks

TOTAL: 100 MARKS