



## JUNE 2012 EXAMINATION

DATE: 8 JUNE 2012

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>SECTION A:</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>SECTION B:</b>	<b>CONSISTS OF 1 SHORT QUESTION</b>	
	ANSWER THE QUESTION	(10 MARKS)
<b>SECTION C:</b>	<b>CONSISTS OF 2 LONG ANSWER QUESTIONS</b>	
	ANSWER <u>BOTH</u> QUESTIONS	(40 MARKS)
<b>SECTION D:</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. What is a reasonable level of assurance?
  - (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
2. General purpose financial statements usually exhibit attributes such as:
  - (a) understandability.
  - (b) neutrality.
  - (c) accountability.
  - (d) relevance.
3. What are the four main types of auditors?
  - (a) external, internal, government and CISA
  - (b) government, internal, certified, and CISA
  - (c) internal CISA, government and chartered auditors
  - (d) professional, internal, external and government
4. In a company, the design and implementation of internal controls is entrusted to:
  - (a) external auditor.
  - (b) company management.
  - (c) audit committee.
  - (d) internal auditor.
5. The degree of risk of an event is determined by reference to:
  - (a) the degree of variability.
  - (b) the value of the operation.
  - (c) the availability of skilled labour.
  - (d) whether the event is successful.

6. Which is not a threat?
  - (a) lack of a resource
  - (b) poor quality of the resource
  - (c) availability of alternative resource
  - (d) loss of the resource
7. What is leadership as a resource?
  - (a) innovative skill
  - (b) appointing a leader
  - (c) a method of deciding
  - (d) the ability to manage change
8. Changing the nature of an activity:
  - (a) raises efficiency.
  - (b) leads to losses.
  - (c) is a control strategy.
  - (d) forces other changes to be made.
9. The organisation impact assessment (OIA):
  - (a) involves communication to the shareholders.
  - (b) looks at an understanding of the organisation / customer needs.
  - (c) is done every second year for review by the board.
  - (d) involves increasing output of the organisation.
10. The main output of the control strategy assessment (CSA) is:
  - (a) a complete review of threats posed.
  - (b) working papers of results and findings of CSA.
  - (c) a report on resources available to the organisation.
  - (d) a plan for external auditors.

[10]

**(ii) TRUE OR FALSE QUESTIONS**

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

1. The standards for the professional practice of internal auditing include five general standards and 20 specific standards (25 in total).
2. Performance objectives should reflect what an activity's customer wants regarding the output.
3. The auditor needs to focus his or her attention on activities where the potential impact of threats on organisational performance is greatest.
4. Risk avoidance occurs when a manager chooses to take an option when he or she knows there is a high risk in taking it.
5. The effectiveness of controls is largely determined by the control environment.

[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. the most important concept to the survival of the auditing function	(a) organisational performance
2. auditing's purpose is to improve	(b) outsourcing
3. standard 300 provides for auditors to evaluate their effectiveness	(c) threats
4. effectiveness is the extent to which an activity achieves its stated	(d) culture
5. other organisations perform some of the required activities	(e) continuum
6. an intangible resource that an organisation draws on	(f) customer service
7. events that impact negatively on an activity's performance	(g) feedback loop
8. a means by which corrective action is fed back into the control system	(h) risk acceptance
9. one of the popular control strategies	(i) control systems
10. when it comes to controlling causes, control exists along a	(j) performance objectives

[10]

[30]

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**SECTION B: SHORT QUESTION**

**(10 MARKS)**

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**ANSWER THE QUESTION**

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**QUESTION 1**

- (a) Write a short note on risk reduction as a strategy. (5)
- (b) Briefly explain how the auditor obtains information about the control strategies used to manage threats. (5) [10]

**[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**

Explain why audit information should be sufficient and relevant and give examples of how an internal auditor may gather such information.

[20]

**QUESTION 2**

(a) Write short notes on re-performance and confirmation.

(10)

(b) Identify the most important element of a deficiency finding.  
Write short notes on two aspects of a deficiency finding.

(10) [20]

**[40]**

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**SECTION D: INTERPRETATIVE QUESTIONS**

**(20 MARKS)**

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**ANSWER ONE OF THE QUESTIONS**

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**QUESTION 1**

- (a) Explain why auditors need to record the auditing process. (5)
- (b) Describe how cross-referencing can assist an audit. (5)
- (c) The objective of interviewing is to get information through enquiry.  
List the steps in planning an interview. Who would you interview? (10) [20]

**OR**

**QUESTION 2**

- (a) List the key factors in conducting an interview. Describe the type of questions you would use. (15)
- (b) Briefly describe how you would prepare an effective outline when planning a report. (5) [20]

**[20]**

**Section A: 30 marks**

**Section B: 10 marks**

**Section C: 40 marks**

**Section D: 20 marks**

**TOTAL: 100 MARKS**