



NOVEMBER 2012 EXAMINATION

DATE: 9 NOVEMBER 2012

TIME: 14H00 – 17H00

TOTAL: 100 MARKS

DURATION: 3 HOURS

PASS MARK: 40%

(BUS-IA1)

INTERNAL AUDITING 1

THIS EXAMINATION PAPER CONSISTS OF 2 SECTIONS:

<u>SECTION A:</u>	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	
<u>SECTION B:</u>	CONSISTS OF 4 QUESTIONS	
	ANSWER <u>ALL</u> THE QUESTIONS	(70 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.

Examiner: P Taylor

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. The audit report can be written:
 - (a) at the beginning of the audit.
 - (b) at the end of the audit.
 - (c) whenever findings occur.
 - (d) during any phase of the audit process.
2. The objective of interviewing is to:
 - (a) reach agreement over a matter.
 - (b) obtain information.
 - (c) discuss the audit findings.
 - (d) meet with management.
3. An objective of a quality performance assessment is to identify:
 - (a) the customers.
 - (b) the controls.
 - (c) the risks.
 - (d) the resources.
4. A function of the external auditor is to:
 - (a) serve the needs of the organisation.
 - (b) be directly concerned with the prevention of fraud.
 - (c) review other internal controls to determine the reliability of data.
 - (d) review activities continually.
5. Which one of the following does NOT form part of every audit project plan?
 - (a) the cost budget
 - (b) the resources
 - (c) the man-hours required
 - (d) the actual results
6. One of the main activities of the control adequacy assessment is:
 - (a) to identify existing controls.
 - (b) to identify the actual level of effectiveness for each key control.
 - (c) to agree on corrective actions.
 - (d) to agree with unit management on opinions.

7. The internal auditor prepares summaries of data in working papers to:
 - (a) assist reviewers by assembling significant information.
 - (b) accumulate individual items into increasingly comprehensive digests.
 - (c) provide material for permanent retention.
 - (d) Both (a) and (b).

8. Which one of the following policies regarding the destruction of working papers would be most effective?
 - (a) destroy working papers after the follow-up has been completed.
 - (b) retain working papers for three years, as required by law.
 - (c) destroy working papers immediately after the subsequent audit, according to the auditing standards.
 - (d) None of the above.

9. Internal controls are intended to provide reasonable assurance that:
 - (a) authorised transactions are processed only once.
 - (b) transaction data is completed and accurate.
 - (c) transaction processing is correct and appropriate.
 - (d) All of the above.

10. Findings should be based on:
 - (a) criteria.
 - (b) conditions.
 - (c) cause and effect.
 - (d) All of the above.

[10]

(ii) TRUE OR FALSE QUESTIONS

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

1. According to Sawyer, the steps in the internal auditing process exclude reporting on the audit.
2. An organisation appoints internal auditors because the law requires it.
3. According to the auditing standards, if management and the board decide not to take action on an auditor's recommendations, the auditor should document the decision of management.
4. In discussing the audit findings, the internal auditor may show the audit working papers to the auditee when audit objectives are not compromised.
5. The internal audit function differs from the external audit because the internal auditor serves third parties.

[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. risk	(a) results in an impact assessment of the organisation
2. audit coverage	(b) the most important concept to the survival of the auditing function
3. relevance	(c) prepared from the launch of the internal audit until the writing of the final report
4. OIA	(d) the degree of uncertainty whether an activity will accomplish a performance objective
5. outsourcing	(e) events that impact negatively on an activity's performance
6. threats	(f) is an attribute displayed by general purpose financial statements
7. customer service	(g) a meeting between an internal auditor and another member of the organisation in which the auditor's objective is to obtain information
8. verifying	(h) organisation impact assessment
9. interviewing	(i) confirming the truth and accuracy
10. working papers	(j) when other organisations perform some of the required activities

[10]

[30]

SECTION B

(70 MARKS)

ANSWER ALL THE QUESTIONS

QUESTION 1

- (a) Identify any five main activities to be undertaken by the internal auditor as part of the organisation impact assessment. (5)
- (b) Describe the difference between 'quality control' and 'quality assurance'. (4)
- (c) Define the term 'auditing'. (3)
- (d) In the context of an organisation, what is meant by the term 'activity'?. (3) [15]

QUESTION 2

- (a) Identify the key aspects of control. (4)
- (b) List any five activities to be carried out as part of the control effectiveness assessment. (5)
- (c) Discuss the purpose of internal auditing with regard to corporate governance. (4)
- (d) Differentiate between a 'risk' and a 'threat'. (4)
- (e) Give the three main outputs of the unit impact assessment. (3) [20]

QUESTION 3

- (a) List any five basic questions to be asked by internal auditors when fulfilling their role. (5)
- (b) Identify and explain the five control strategies available to management. (10) [15]

QUESTION 4

- (a) Identify and describe any five inputs of a control adequacy assessment. (5 × 2 = 10)
- (b) Identify and explain the five key concepts that define auditing. (5 × 2 = 10) [20]

[70]

Section A: 30 marks

Section B: 70 marks

TOTAL: 100 MARKS