
PRESCRIPTION: 205 INTERNAL AUDITING

Last date for assessing this prescription is 31 December 2008

INTRODUCED: 1993
REVISED: 1999 (Implemented Semester Two 1999)

AIM OF SUBJECT

To provide an introduction to the theory and practice of internal auditing as an added value service for corporate governance.

ASSUMED PRIOR KNOWLEDGE

A level of knowledge as provided in 100 Accounting Principles and 130 Organisation and Management or the equivalent is assumed.

COURSE LENGTH

The equivalent of 20 National Qualifications Framework credits, with a minimum of 60 class contact hours or the equivalent for open learning/distance tuition.

RESOURCES

Suggested student references

Institute of Internal Auditors. Standards for the professional practice of internal auditing. Altamonte Springs, FL: Institute of Internal Auditors. Latest edition.

National business review

The independent

Daily newspapers

Lecturers' notes

Suggested lecturers' references

Ratliff, Richard L. and others. Internal auditing: principles and techniques. Altamonte Springs, FL: Institute of Internal Auditors. Latest edition.

Institute of Internal Auditors. Standards for the professional practice of internal auditing. Altamonte Springs, FL: Institute of Internal Auditors. Latest edition.

Standards New Zealand. Risk management. Wellington: Standards New Zealand. (AS/NZS 4360:1995)

Journals

Chartered accountants journal. Wellington: Institute of Chartered Accountants of New Zealand.

Internal auditing. London: Institute of Internal Auditors.

Internal auditor. Altamonte Springs, FL: Institute of Internal Auditors.

TIME AND ASSESSMENT SCHEDULE

The prescription assumes a RCAP model of assessment (R= recall, C = comprehension, A = application, P = problem solving). In assessing to the prescription, it is expected that, in general, assessment will be of the ability of students to apply the learning outcomes and to undertake problem solving within the course material. Assessment of comprehension should be undertaken only where it is appropriate. Assessment of recall is implicit.

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TOPICS	Time in hours	Assessment Weightings (%)	
		min	max
1 Internal Auditing and Risk Management	8	10	15
2 Professional Promulgations	12	15	25
3 Internal Control	24	35	45
4 Internal Auditing Fieldwork and Reporting	16	25	35
	TOTAL	60	100%

This schedule is a recommendation and guide for lecturers, examiners and students. It gives:

- 1 an approximate allocation of time in hours by topic.
- 2 an approximate percentage allocation for assessment by topic.

TOPICS

1 INTERNAL AUDITING AND RISK MANAGEMENT

Learning Outcome

At the completion of this topic, students will be able to describe risks currently faced by business, public sector and not-for-profit organisations and be able to describe the importance of internal auditing.

Assessment Criteria

Students will be expected to:

- 1.1 Explain the risks faced by business, public sector and not-for-profit organisations.
- 1.2 Explain the role of auditing in our society including public/management expectations.
- 1.3 Distinguish between management audits, operational audits, financial audits, quality management audits, and equity audits.
- 1.4 Distinguish between an external and internal auditor.
- 1.5 Explain the role of the Institute of Internal Auditors.
- 1.6 Explain the function of the Internal Audit Charter.
- 1.7 Explain the role of an Audit Committee.
- 1.8 Explain the current issues faced by the profession.

2 PROFESSIONAL PROMULGATIONS

Learning Outcome

At the completion of this topic, students will be able demonstrate a knowledge of the following promulgations, and apply them to practical case studies where appropriate.

Assessment Criteria

Students will be expected to:

- 2.1 Explain the reasons for the development of Standards for the Professional Practice of Internal Auditing.
- 2.2 Give reasons why Internal Auditors should be independent of the activities they audit (Standard 100).

- 2.3 Explain and apply the qualities of professional proficiency (Standard 200).
- 2.4 Explain and apply the scope of Internal Audit (Standard 300).
- 2.5 Explain the management of the Internal Auditing Department (Standard 500).
- 2.6 Explain the purpose and apply the scope of the Code of Ethics issued by the Institute of Internal Auditors.
- 2.7 Explain the Internal Auditors' relationships with independent outside auditors (SIAS No 5).
- 2.8 Explain why the Internal Auditor should have access to the Board of Directors (SIAS No 7).
- 2.9 Be aware of the relevance of standards such as the SANZ Standard on Risk Management.

3 INTERNAL CONTROL

Learning Outcome

At the completion of the topic, students will be able to apply a knowledge of internal control.

Assessment Criteria

Students will be expected to:

- 3.1 Explain the evolution of internal control concepts (COSO, COCO, Cadbury).
- 3.2 Explain the objectives of internal control and the importance of the internal control environment.
- 3.3 Distinguish various control types:
 - preventative controls
 - detective controls
 - corrective controls
 - directive controls.
- 3.4 Explain and illustrate internal controls for the following financial transaction cycles:
 - sales/receipts/credit control
 - purchases/creditors/payments
 - payroll
 - capital transactions.

- 3.5 Explain and illustrate internal controls for the following non-financial activities:
- personnel
 - safety
 - marketing/advertising
 - environmental.
- 3.6 Give examples of fraud and compensating internal controls:
- red flag indicators
 - management override
 - limitations of internal controls.
- 3.7 Explain internal controls applicable to computer based systems.
- 3.8 Explain the relevant professional standards:
- SIAS1 Control Concepts and Responsibilities
 - SIAS3 Deterrence, Detection, Investigation and Reporting of Fraud.
- 3.9 Explain the use of analytical review, including benchmarking and inter-firm comparisons, in internal auditing.
- 3.10 Explain the importance of risk and elements of risk analysis.
- 3.11 Explain the purpose of information gathering and the preliminary survey.
- 3.12 Use flow charting techniques and data flow diagrams including computer packages to document systems.
- 3.13 Use an internal control questionnaire to evaluate internal control.

4 FIELDWORK AND AUDIT REPORTING

Learning Outcome

At the completion of this topic, students will be able to apply a knowledge of the internal audit process.

Assessment Criteria

Students will be expected to:

- 4.1 Explain the requirements of professional standards:
- 400 Performance of Audit Work
 - SIAS4 Quality Assurance.

- 4.2 Demonstrate an ability to plan an audit.
- 4.3 Distinguish the various types of audit evidence.
- 4.4 Explain the various types of evidence gathering techniques.
- 4.5 Explain how the quality of audit evidence can be determined.
- 4.6 Explain the standards relating to the design of audit programmes and the format of SIAS6 Audit Working Papers.
- 4.7 Identify the appropriate operational standards which would apply in a given audit.
- 4.8 Explain how a sample is selected and examined for internal auditing purposes.
- 4.9 Explain audit interviewing techniques.
- 4.10 Prepare audit programmes to form an opinion on the compliance with standards for financial transaction cycles and non-financial activities.
- 4.11 Explain the significance and materiality of the various types of audit findings.
- 4.12 Explain the functions of the audit report.
- 4.13 Illustrate how positive and negative audit findings can be communicated to management so that corrective action can be implemented where necessary.
 - SIAS2 Communicating Results
- 4.14 Illustrate an effective follow-up and conclusion of the audit process.

TEACHING NOTES

Risk management as a means of avoiding risk, or mitigating risk is a key point in this course. Students should be aware that business need to grasp opportunities that arise and not be so risk averse as to stifle business.

The emphasis in this course is one of using current issues involving internal auditing as a means of communicating ideas .

Daily newspapers are a crucial source of current material which is of real interest to students and helps them understand and relate current issues. The daily newspapers also are a source of material for ongoing issues relating to fraud, internal control breakdown and poor management.

It is recommended that lecturers provide lecture notes or “readings” for their students.

Role playing exercises in which students each adopt the position of a participant such as the manager or the chairman of the firm are encouraged. Student placement and interviews into the internal audit function of local businesses are also encouraged.

The environment (green) issues that have now become current mean that students need to be aware of statutes that apply in their businesses.

“Whistle blowing” is an important issue that student need to consider. Students also need to debate issues which have created public outrage.

A mix of project work and case study work along side a formal examination should produce a fair basis for assessment. The developing economies and Transparency International would make a useful case study.

Oral and written reporting is a very important part of this course, and students need to get exposure to this in the course of the work.

With information technology issues, students need to see examples of how spreadsheets are not suited to mission critical financial and non financial tasks.

E-commerce is a current issue which should be covered in the context of internal control and auditing procedures.