

Solutions to Student Self Assessment Questions

Chapter 15





Assurance engagements and internal audit

Questions

15.1 This question is placed within the text (Case study 15.4: Photocopy costs in an educational institution).

15.2 This question is placed within the text (Case study 15.6: Internal audit at Troston plc).

15.3 The information on page 606 is taken from a public notice displayed at Billowness Beach, Anstruther, Fife, Scotland:

<p>ENCAMS Seaside Awards</p> <p>A beach may fly a Seaside Award Flag when it meets specific criteria for management and cleanliness and the bathing water reaches the overall legal minimum microbiological standards the previous year. The Seaside Award which is only valid for one year recognizes two categories of beach:</p> <p><i>Resort beaches</i> have a range of facilities including supervisors, first aid, toilets and easy access for all. They restrict dogs from the main section of the beach during the season. The flag is flown when all 29 of the criteria are being met.</p> <p><i>Rural beaches</i> are quieter and are often more remote than resort beaches. They will not have the same range of facilities as resort beaches and may allow dogs. The flag is flown when all 13 of the criteria are being met.</p>		<p><i>Information</i> This beach operator cares for the coastal environment. Please help look after this beach and the surrounding environment by disposing of your rubbish carefully, cleaning up after your dog and observing the Waterside Code. Tourist information Fife Council St Andrews Community Services</p> <p>Regular feedback is vital to check and maintain standards. Please contact the beach operator immediately if you discover a problem. For further information about the Seaside Awards, or to send your comments about this beach please contact ENCAMS Seaside Awards office, Norwich.</p> <p><i>Management and cleanliness</i> <i>Dogs</i> Dogs may be banned from certain areas of this beach from May 1 to September 30. Special bins are provided for dog refuse on all adjacent areas where dogs should be kept on a leash at all times</p> <p><i>Litter</i> Litter bins are provided at regular intervals along the seafront. PLEASE DISPOSE OF YOUR LITTER CAREFULLY.</p> <p><i>Vehicles</i> Vehicles are not permitted on this beach without authorization from the local authority.</p> <p><i>Watercraft</i> Watercraft users should refer to the map for appropriate zoning.</p>	<p><i>Safety</i> <i>Lifeguards</i> Lifeguard facilities are available from Billowness (no further information given).</p> <p><i>First Aid</i> First Aid facilities are available from Billowness (no further information given).</p> <p><i>Hazards</i> To keep your family safe, follow the Water Safety Code: Beware of the dangers – rip tides, offshore winds, breakwaters, pipes, rocks. Follow advice – look out for signs and listen to the lifeguard. Never swim alone or after food or alcohol. Take note of the following hazards (None listed).</p> <div><div>Flags</div><div></div><div><p>Red: Danger no bathing</p><p>Orange and Yellow: area patrolled by lifeguards</p><p>Dark green and light green: surfing area</p><p>No inflatables</p></div></div> <p>Contact telephone numbers – for doctor, hospital, police, coastguard, veterinary surgeon, beach cleaning, head of community services, dog warden, area team leader, area supervisor, ranger service, training officer.</p>
Bathing water quality		Definitions	
13 May 2003 5 June 2003 10 June 2003 18 June 2003 23 June 2003 2 July 2003 8 July 2003 11 July 2003	Poor standard Excellent standard Good standard Excellent standard Excellent standard Excellent standard Excellent standard Excellent standard	Excellent standard: the sample met European Union Guideline Standards: less or equal to 500 coliforms per 100 ml of water or 100 faecal coliforms per 100 ml of water. Good standard: the sample met European Mandatory Standards: less or equal to 10 000 coliforms per 100 ml of water or 2 000 faecal coliforms per 100 ml of water. Poor standard: the sample failed to meet European Mandatory Standards.	
Year 2000 Year 2001 Year 2002	Excellent standard Excellent standard Excellent standard	Excellent standard: At least 80% of samples were excellent and at least 90% of samples met a standard of 100 streptococci per 100 ml. Good standard: At least 95% of samples are good or excellent. Poor: The good or excellent yearly standards were not met	
Tests are performed by the Scottish Environment Protection Agency (SEPA), Edinburgh Office, Clearwater House, Heriot Watt Research Park, Riccarton, Edinburgh. SEPA is an independent body responsible to the Scottish Executive (of the Scottish Parliament).			
The map of Billowness indicates the position of toilets, life saving equipment, disabled access, public telephone, litter bins, dog waste bins.			
More information and historical data about this beach can be found at www.sepa.org.uk			

Required:

Examine the information contained in this notice and

(a) identify the following:

- (i) the person or body exercising the role of practitioner
- (ii) responsible party
- (iii) intended users
- (iv) subject matter
- (v) criteria
- (vi) report of practitioner.

(b) State whether a positive or negative conclusion has been given.

(c) State whether you think that the subject matter provided by the responsible party is of value to the intended users. Do you think that the report provided by the independent third party will have enhanced the confidence of the intended users in the subject matter?

Solutions**15. 1 Case study 15.4 Photocopy costs in an educational institution**

The internal auditor should pursue the following matters:

- a) As a first step check the cost of 4p per sheet from rented photocopying machines and also review print room costings to determine whether the figures provided by management are accurate. The auditor should ascertain how frequently the costings are reviewed and up-dated, particularly as the policy has been in force for 5 years. Modern photocopying machines are much more efficient than machines manufactured a comparatively short time ago.
- b) During the visit to the print room it was noticed that there was a six working days delay in the processing of print requests, a delay that might prevent teaching and other staff from using print room facilities. Although much teaching material is prepared in advance, the nature of teaching (at advanced levels particularly) is such that often hand-out material for students is required at short notice. Another matter you should investigate is whether management has considered the question of overload at some times and under-load at others, and, if so, what decisions have been taken and why.
- c) You would discuss with the department head the reasons for the decision to acquire a photocopying machine from its own budget. (for instance, was it the result of delays or was it because the department could obtain copies cheaper than through the print room, particularly when the reduction facility was being used). You might also wish to consider if the department head had authority to purchase a machine of this type and cost.
- d) You would confirm that the departmental costings are accurate and also to discover at what point the print room could produce copies cheaper than the departmental machine. The direct question to be considered is whether copies in excess of 100 would be cheaper.
- e) Finally, it would seem desirable to discover why staff members were photocopying quantities in excess of 100. Was it because of poor planning on the part of the staff member or was it for a good reason, such as being called on to take a class at short notice or to provide students with up to date material for a special project. You might wish to comment in your report on the amount of time that academic staff seemed to be taking on a relatively menial task.

Further actions would be dependent on responses and the results of the tests made.

15.2 Case Study 15.6 Internal Audit at Troston plc

Matters that might lead to effectiveness

- i) Staff appear to be qualified for the audit task. Two staff members, including the head of internal audit are members of reputable accounting bodies and two others appear to have good audit experience, although professionally unqualified. The department has a computer expert in place, who, it is noted, has been asked to give advice to the IT committee.
- ii) The head of internal audit is directly responsible to a board member, although it could be argued that responsibility to the chief executive would be better (see 'Matters that might detract from effectiveness' below). However, internal audit reports also go to board members and the chair of the audit committee and the audit committee has direct contact with the head of internal audit and discusses internal audit reports with him on its own initiative. This feature increases the status and independence of the internal audit department. That the head of internal audit reports to the whole Board at six monthly intervals is also a positive feature. It is of note that the production work planned was initiated by the production director.
- iii) The internal audit planning process seems to be performed on a timely basis. A good feature is that the plan is discussed with the external auditor to allow co-ordination of the total audit process.
- iv) The audit task is broad in scope and not restricted to accounting and finance. A positive matter is that the plan contains work on internal audit's own initiative - sales statistics (to find if they are reliable) and research and development (to discover if R & D activity is effective). It is also of interest that the department is directing its effort to 'value for money'. A further positive feature is the fact that the internal audit computer expert takes an active part in the development process, but she should be made aware of the independence issue.
- v) A good feature is the review of reports by the head of internal audit and that comments are invited from auditees. This will tend to increase respect for the internal audit by auditees.

Matters that might detract from effectiveness

- i) There is evidence of the short stay syndrome as one member of the department is being moved on after only two years. The external auditors should recommend that internal audit be provided with high quality staff and that promotion outside the department be done on the basis of proven high quality work.
- ii) This is a particularly important matter in view of the department's planned commitment. It might be argued that the programme is too wide-ranging for five staff members, even if all were experienced. The newly appointed Certified Accountant has only recently qualified and may, therefore, lack the experience to carry out VFM audits effectively. This should be discussed with the head of internal audit and with the audit committee with a view to strengthening the audit team and to decide what approaches should be adopted to VFM studies.
- iii) The reporting and task lines on Figure 15.1 suggest that if higher level decision-making by the finance director are the subject of audit scrutiny, there might be conflict with the formal reporting line to that director. A stronger reporting line to the chairperson of the audit committee would clearly be desirable, particularly in the light of the wide range of responsibility of the finance director.

Ways in which the work of the department might be extended to make it more useful

We should perhaps ask initially who would benefit from the work of the internal audit department whether extended or not. Obvious groups are executive management and audit committee and perhaps also wider society, particularly as corporate governance is assuming ever greater importance. We discuss corporate governance in Chapter 18. Some suggestions are:

- (a) Adopting a business risk approach to their work to aid management in adopting risk strategies
- (b) Becoming more involved in participative auditing, working together with management staff on particular projects needing an independent perspective. This could be done in relation to the work on research and development and efficiency of the production process
- (c) Adopting an active relationship with the audit committee to serve its needs and to consider how corporate governance arrangements could be strengthened. One important area might be ensuring that the company is adhering to rules and regulations affecting it.

Clearly approaches such as these could only be achieved if the company ensures that the department has adequate resources.

15.3 Billowness Beach

This is an interesting question as the body providing a conclusion - in this case the quality of the water - is not a practitioner in a firm of accountants and auditors. Nevertheless, there is undoubtedly a conclusion that will increase the confidence of intended users in the subject matter. Let us now address the question:

- (a) (i) The body exercising the role of practitioner is clearly the Scottish Environment Protection Agency (SEPA), as far as the quality of water is concerned. It is important to note that SEPA is independent of Fife Council, thereby possessing the important quality of independence.
 - (ii) The responsible party is Fife County Council which has put the information about Billowness Beach together and made it public.
 - (iii) The intended users are the members of the public and their families who use the beach.
 - (iv) The subject matter is the notice that we reproduced in all material respects, containing much information about facilities and water quality and the subject matter information is the assertion by SEPA about water quality.
 - (v) The notice does not detail all criteria, merely stating that for this rural beach 13 criteria have been fulfilled under the general headings of water quality, management, safety, cleanliness, and information. The criteria concerning water quality is very specific, although most people would probably not know what a coliform is unless they go to SEPA's website.
 - (vi) The report of the practitioner is the clear statement made by an identified body that the water quality meets certain criteria established by the European Union.
- (b) The conclusion given is clearly positive. SEPA is not saying that they have no reason to doubt that the water quality on 11 July 2003 was excellent. They are stating positively that the sample taken showed that the water quality on that date was excellent.
 - (c) We think that the subject matter would be of great value to intended users. On the basis of SEPA's report families would be confident that they and their children

could bathe in the sea without danger. They are also well informed about who they should contact if they experienced problems when on the beach, as contact telephone numbers have been made available to them. They have the opportunity too to keep the beach clean themselves because of the provision of litter bins and bins for dog waste.

We make one further comment about the data in the public notice given in the question and that is the poor standard on 13 May 2003. We talked to a Fife Council official about this and he indicated that it is very difficult to prevent pollution coming from other areas and ships. This is clearly one of the difficulties that environmental auditors have to consider.