



FINAL EXAMINATION
MARCH 2024

COURSE TITLE	INTERNAL AUDITING
COURSE CODE	AAUD4213
DATE/DAY	28 JUNE 2024 / FRIDAY
TIME/DURATION	09:00 AM - 12:00 PM / 03 Hour(s) 00 Minute(s)

INSTRUCTIONS TO CANDIDATES :

1. Please read the instruction under each section carefully.
2. Candidates are reminded not to bring into examination hall/room any form of written materials or electronic gadget except for stationery that is permitted by the Invigilator.
3. Students who are caught breaching the Examination Rules and Regulation will be charged with an academic dishonesty and if found guilty of the offence, the maximum penalty is expulsion from the University.

(This Question Paper consists of 6 Printed Pages including front page)

*****DO NOT OPEN THE QUESTION PAPER UNTIL YOU ARE TOLD TO DO SO*****

This question paper consists of FOUR (4) questions. Answer ALL questions in the answer booklet. [50 MARKS]

QUESTION 1

(10 Marks)

Company BESTIE is a multinational corporation operating in the financial services sector. It prides itself on maintaining high ethical standards and compliance with all relevant regulations. However, a whistleblower complaint has brought to light allegations of financial fraud within the company's accounting department.

Background:

The whistleblower, an anonymous employee, submitted a detailed complaint to the company's internal whistleblowing hotline, alleging that members of the accounting department were engaging in fraudulent activities to manipulate financial statements and inflate revenues. The complaint specifically highlighted suspicious accounting practices related to revenue recognition, expense management, and the use of off-balance-sheet entities.

Internal Audit Investigation:

Upon receiving the whistleblower complaint, the company's internal audit department launched an immediate investigation. The internal audit team, led by the Chief Internal Auditor, conducted a comprehensive review of the accounting records, financial transactions, and supporting documentation.

Key Findings:

- i. **Revenue Recognition:** The internal audit team identified instances where revenue was recognized prematurely, before it had been earned or realized. This practice artificially inflated the company's reported revenues and misled investors and stakeholders.
- ii. **Expense Management:** The audit uncovered irregularities in expense reporting, including instances of unauthorized expenses being recorded as legitimate business expenditures. These inflated expenses were used to offset the overstated revenues, masking the true financial performance of the company.
- iii. **Off-Balance-Sheet Entities:** The investigation revealed the use of off-balance-sheet entities to conceal liabilities and manipulate the company's financial position. These entities were used to transfer assets and liabilities off the company's balance sheet, distorting the true financial health of the organization.

Required:

- a) Briefly explain what whistleblowing is and how whistleblower program can be carried out in an organization? (2 marks)
- b) What is the role of the internal audit in responding to whistleblowing in Company BESTIE? (2 marks)
- c) State **THREE (3)** recommendations to be made by the internal audit team based on the findings of the investigation. (6 marks)

Figure 1:
AC Oversight Responsibilities

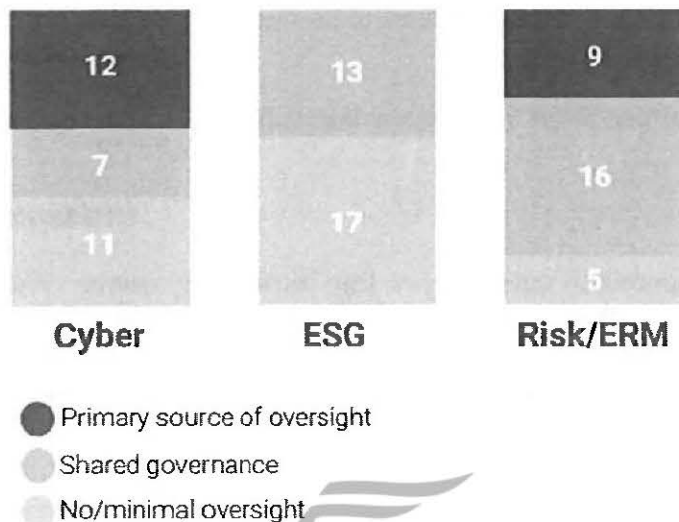


Figure note: This figure reports the number of AC participants who describe the AC as having no/minimal, shared, or primary oversight of these respective areas of evolving responsibilities. Regarding ESG, many AC participants report that they are monitoring regulatory interest in ESG disclosures but have not yet assumed any form of oversight responsibility. For those with "shared" governance over ESG, these AC participants commonly report responsibility related to overseeing the quality of ESG disclosures but another committee oversees ESG-related policies.

Leading practice in this area is listed in Example 1.1:

Example 1.1: Jacobs Solutions Inc. (formerly Jacobs Engineering Group Inc.)
 Industry Sector: Industrials—Engineering & Construction
 Index: S&P 500

AC oversight disclosures related to ESG disclosure and cybersecurity oversight are not common, yet ACs increasingly report in surveys that they are taking on these responsibilities. In this example, Jacobs Engineering Group Inc. is specific about what aspects of ESG the AC is overseeing.

Audit Committee		
Members:* (4) - Barbara L. Loughran (Chair) - Manny Fernandez - Linda Fayne Levinson - Robert A. McNamara - Christopher M.T. Thompson†	Primary responsibilities include monitoring and overseeing the: <ul style="list-style-type: none"> Integrity of the Company's financial statements Independent auditor's qualifications and independence Performance of the Company's internal audit function and independent auditors Compliance by the Company with legal and regulatory requirements Oversight of controls and processes over material ESG data reporting and other ESG related matters delegated from the ESG & Risk Committee 	Meetings in Fiscal 2021: 7 Committee Member Attendance: 100%
* Each member is independent and financially literate and qualifies as an audit committee financial expert † New member appointed to Committee in fiscal 2021		

Source: <https://www.sec.gov/Archives/edgar/data/52988/000119312521354013/d219676ddef14a.htm>

protections are also inadequate, discouraging employees from reporting unethical behaviour or raising concerns.

Required:

- a) How did the composition of the board of directors contribute to governance challenges at the company? What gaps were identified in the board's oversight and accountability mechanisms? (3 marks)
- b) How can the company monitor, evaluate, and improve the effectiveness of its corporate governance practices over time, particularly in ethics, transparency and accountability. (4 marks)
- c) What are the recommendations to be made by the internal audit team based on the findings of the investigation? (8 marks)

*** END OF QUESTION PAPER ***

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