

Volume: 80 Questions

Question No: 1

Each individual work paper should, at a minimum, contain

- A. An expression of an audit opinion.
- B. A tick mark legend.
- C. A complete flowchart of the system of internal controls for the area being reviewed.
- D. A descriptive heading.

Answer: D

Question No: 2

Which of the following techniques is best for emphasizing a point in a written communication?

- A. Place the point in the middle rather than at the beginning or end of the paragraph.
- B. Use passive rather than active voice.
- C. Highlight the point through the use of nonparallel structure.
- D. Use a short sentence with one idea rather than a longer sentence with several ideas.

Answer: D

Question No: 3

An internal audit director has noticed that staff auditors are presenting more oral reports to supplement written reports.

The best reason for the increased use of oral reports by the auditors is that they

- A. Reduce the amount of testing required to support audit findings.
- B. Can be delivered in an informal manner without preparation.
- C. Can be prepared using a flexible format, thereby increasing overall audit efficiency.
- D. Permit auditors to counter arguments and provide additional information that the audience may require.

Answer: D

Question No: 4

An internal auditor found that employees in the maintenance department were not signing their time cards. This situation also existed during the last audit.

The auditor should

- A. Include this finding in the current audit report.
- B. Ask the manager of the maintenance department to assume the resulting risk.
- C. Withhold conclusions about payroll internal control in the maintenance department.
- D. Instruct the employees to sign their time cards

Answer: A

Question No: 5

Purchases from two new vendors increased dramatically after a new buyer was hired. The buyer was obtaining kickbacks from the two vendors based on sales volume.

A possible means of detection is

- A. Periodic vendor surveys regarding potential buyer conflict of interest or ethics violations.
- B. The receipt of an invoice to put new vendors on the master file.
- C. The use of purchase orders for all purchases.
- D. The use of change analysis and trend analysis of buyer or vendor activity.

Answer: D

Question No: 6

An organization uses a service bureau to process its hourly payroll transactions. The internal auditor is concerned that the hourly payroll for the year has been processed correctly and, in particular, the computation of employee withholding for pension contributions is in accordance with the union contract, which specifies charges each quarter.

Which of the following audit procedures would best accomplish the audit objective?

- A. Select a random sample of all hourly payroll transactions for the reporting period, re-compute pay and

withholding items, and compare the result with that obtained from the service bureau.

B. Select a stratified sample of all hourly and salaried payroll transactions for an entire reporting period, perform the necessary activities, and then compare the result with that obtained from the service bureau.

C. Select a discovery sampling of all payroll transactions for an entire reporting period and then follow up on any findings.

D. Submit a set of test data to the service bureau during an annual audit and compare the service bureau's processing with the auditor's predetermined computations on the same test data.

Answer: D

Question No: 7

The objective of a program results audit requires the auditor to

A. Place an emphasis on outputs rather than inputs.

B. Look for cost savings or waste.

C. Include only historical data in the audit.

D. Render an opinion on the fairness of financial presentation.

Answer: A

Question No: 8

In addition to controls over access, processing, program changes, and other functions, a computerized system needs to establish an audit trail of information.

Which of the following information would generally not be included in an audit trail log designed to summarize unauthorized system access attempts?

A. A list of authorized users.

B. The type of event or transaction attempted.

C. The terminal used to make the attempt.

D. The data in the program sought.

Answer: A

Question No: 9

Audits vary in their degree of objectivity. Of the following, which is likely to be the most objective?

- A. Compliance audit of company's overtime policy.
- B. Operational audit of the personnel function hiring and firing procedures.
- C. Performance audit of the marketing department.
- D. Financial control audit over payroll procedures.

Answer: A

Question No: 10

The internal auditors of a financial institution are auditing the institution's investing and lending activities. During the last year, the institution has adopted new policies and procedures for monitoring investments and the loan portfolio. The auditors know that the organisation has invested in new types of financial instruments during the year and is heavily involved in the use of financial derivatives to appropriately hedge risks

The audit committee has expressed concern that the financial institution has been taking on higher-risk loans in pursuit of short term profit goals.

Which of the following audit procedures would provide the least amount of information to address this audit concern?

- A. Perform an analytical review of interest income as a percentage of the investment portfolio in comparison with a group of peer financial institutions.
- B. Take a random sample of loans made during the period and compare the riskiness of the loans with that of a random sample of loans made two years ago.
- C. Perform an analytical review that involves developing a chart to compare interest income plotted over the past ten years.
- D. Develop a multiple regression time series analysis of income over the past five years, including such factors as interest rate in the economy, size of loan portfolio, and dollar amount of new loans each year.

Answer: C

Question No: 11

An operational audit is being performed to evaluate the productivity of telephone sales representatives relative to last year. The organization sells two similar products, one of which is priced 20% higher than

the other. Prices did not change during the two years subject to the audit, and the gross profit percentage is the same for both products. The sales representatives are paid a base salary plus a commission. Which one of the following items represents the best evidence that the organization's sales representatives are more productive this year than last year?

- A. The revenue per representative is higher this year than last year.
- B. The number of sales calls is higher this year than last year.
- C. The ratio of the number of new customers to the number of prospects contacted is higher this year than last year.
- D. Unit sales increased at a higher rate this year than last year.

Answer: A

Question No: 12

In planning a system of internal operating controls, the role of the internal auditor is to

- A. Design the controls.
- B. Appraise the effectiveness of the controls.
- C. Establish the policies for controls.
- D. Create the procedures for the planning process.

Answer: B

Question No: 13

An example of an internal non-financial benchmark is

- A. The labor rate of comparably skilled employees at a major competitor's plant.
- B. The average actual cost per pound of a specific product at the company's most efficient plant becomes the benchmark for the company's other plants.
- C. The company setting a benchmark of \$50,000 for employee training programs at each of the company's plants.
- D. The percent of customer orders delivered on time at the company's most efficient plant becomes the