

## Question 1

Which forms of control self-assessment assume that managers and members of work teams possess an understanding of risk and control concepts and use those concepts in communications?

- A. The self-certification approach.
- B. The self-certification approach and facilitated approach.
- C. The self-certification approach and questionnaire approach.
- D. All self-assessment programs.**

### *Explanation*

Answer "D" is correct.

All self-assessment programs assume that managers and members of the work teams possess an understanding of risk and control concepts and using those concepts in communications. For training sessions, to facilitate the orderly flow of workshop discussions and as a check on the completeness of the overall process, organizations often use a control framework, such as the COSO (Committee of Sponsoring Organizations) and CoCo (Canadian Criteria of Control Board) model

## Question 2

A purchasing agent acquired items for personal use with the organization's funds. The organization allowed designated employees to purchase a specified amount per day in merchandise under open-ended contracts. Supervisory approval of the purchases was required, but that information was not communicated to the vendor. Instead of reviewing and authorizing each purchase order, supervisors routinely signed the authorization sheet at the end of the month without reviewing any of the supporting documentation. Because purchases of this nature were not subject to normal receiving policies, the dishonest employee picked up the supplies at the vendor's warehouse. All purchases were for items routinely ordered by the organization. During the past year, the employee amassed enough merchandise to start a printing and photography business. Which of the following engagement procedures, performed by the internal auditor, is most likely to detect this fraud?

- A. Tracing prices and quantities on selected vendors' invoices to the related purchase orders.
- B. Recomputing the clerical accuracy of selected vendors' invoices, including discounts and sales taxes.
- C. Performing a trend analysis of printing supplies expenses for a 2-year period.**
- D. Tracing selected canceled checks to the cash payments journal and to the related vendors' invoices.

### ***Explanation***

Answer "C" is correct.

A basic premise underlying the application of analytical procedures is that plausible relationships among data may reasonably be expected to exist and continue in the absence of known conditions to the contrary. Thus, performing a trend analysis of printing supplies expenses for a 2-year period should identify an excess use of supplies

### Question 3

The chief of an organization's security received an anonymous call accusing a marketing manager of taking kickbacks from a media outlet. Thus, the marketing department is on the list of possible engagement clients for the coming year. The internal audit function is assigned responsibility for investigating fraud by its charter. If obtaining access to outside media outlet records and personnel is not possible, the best action an internal auditor could take to investigate the allegation of marketing kickbacks is to

- A. Search for unrecorded liabilities from media outlets.
- B. Develop a financial and behavioral profile of the suspect.**
- C. Obtain a list of approved media outlets.
- D. Vouch any material past charge-offs of receivables.

#### *Explanation*

Answer "B" is correct.

A common indicator of fraud by an employee is an unexplained change in his or her financial status. A standard of living not commensurate with the employee's income may signify wrongdoing. The employee's behavior may also be suspicious (for example, constant association with, and entertainment by, a member of the media outlet's staff). The profile may help to corroborate illegal income and thereby provide a basis for tracing illegal payments to the employee.

### Question 4

The internal audit function encounters a scope limitation from senior management that will affect the activity's ability to meet its goals and objectives for a potential engagement client. The nature of the scope limitation needs to be

- A. Noted in the engagement working papers, but the engagement should be carried out as scheduled and the scope limitation worked around, if possible.
- B. Communicated, preferably in writing, to the board.**
- C. Communicated to management stating that the limitation will not be accepted because it would impair the internal audit function's independence.
- D. Communicated to the external auditors, so they can investigate the area in more detail.

#### *Explanation*

Answer "B" is correct.

A scope limitation, along with its potential effect, needs to be communicated to the board.

## Question 5

During an engagement to evaluate the organization's accounts payable function, an internal auditor plans to confirm balances with suppliers. What is the source of authority for such contacts with units outside the organization?

- A. The Standards.
- B. Global Practice Guides.
- C. Internal audit function policies and procedures.
- D. The internal audit function's charter.**

### *Explanation*

Answer "D" is correct.

The charter establishes the internal audit function's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Thus, the charter prescribes the internal audit function's relationships with other units within the organization and with those outside.