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# CIA-II

## Financial

*Certified Internal Auditor (CIA)*

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**QUESTION: 1**

Vouching entails verifying recorded amounts by examining the underlying documents from the documents to the documents.

- A. Final; original.
- B. Final; previous.
- C. Original; final.
- D. Original; subsequent.

**Answer: A**

Vouching entails verifying recorded amounts by examining the underlying documents from the final documents to the original documents. The engagement objective of working backward is to provide information that recorded amounts reflect valid transactions. Vouching supports the existence or occurrence assertion. Vouching is irrelevant to the completeness assertion, because the existence of records of some transactions does not prove that all transactions were recorded.

**QUESTION: 2**

An internal auditor has set an engagement objective of ascertaining compliance with a city ordinance forbidding city purchasing from vendors affiliated with elected city officials. Which of the following engagement techniques will best meet this objective?

- A. Inspection of documents.
- B. Observation.
- C. Inquiry.
- D. Analytical review.

**Answer: A**

The purchase order should be inspected for information about supervisory review to ensure that vendors used are from approved vendor lists.

**QUESTION: 3**

For review of an accounting department's bank reconciliation unit, which of the following is an appropriate engagement work program step for the review of canceled checks for authorized signatures?

- A. Comparing the check date with the first cancellation date.
- B. Determining that all checks are to be signed by individuals authorized by the board.
- C. Examining a representative sample of signed checks and determine that the signatures are authorized in the organizational signature book.

D. Completing the tests of controls over check signatures in 4 hours.

**Answer: C**

Cash disbursements must be properly authorized. The issuance of checks is performed by the treasury function after review of supporting documents, including a payment voucher prepared by the accounts payable department. Proper control procedures require that check-signing responsibility be limited to a few persons whose signatures are kept on file at the banks where the organization has accounts.

**QUESTION: 4**

To ascertain that all credit sales are recorded in accounts receivable, an internal auditor should

- A. Confirm selected accounts receivable balances by direct correspondence with customers.
- B. Trace from a sample of subsidiary ledger entries to related sales invoices and to related shipping documents.
- C. Trace from a sample of customer purchase orders to related shipping documents.
- D. Trace from a sample of shipping documents to related sales invoices and subsidiary ledger.

**Answer: D**

To determine that all credit sales are recorded, the proper direction of testing is from the shipping records, such as bills of lading, to the sales invoices and the accounts receivable subsidiary ledger. Tracing supports the completeness assertion.

**QUESTION: 5**

To determine whether refunds granted to customers were properly approved, an internal auditor should vouch accounts receivable entries to

- A. Sales invoices.
- B. Remittance advices.
- C. Shipping documents.
- D. Credit memos.

**Answer: D**

The internal auditor should vouch allowance entries (credits to accounts receivable and debits to the allowance account) to the supporting credit memos. The credit memos

should then be examined for approvals by appropriate personnel.

**QUESTION: 6**

During an engagement to evaluate travel expenses, the accounting supervisor tells the internal auditor that each expense report is reviewed and approved before costs are reimbursed to the traveler. Which of the following is the best course of action for the internal auditor to take?

- A. Request the supervisor to put the statement in writing.
- B. Review a sample of expense reports for proper approval.
- C. Conserve engagement resources by accepting the statement and redirect work into another area.
- D. Corroborate this information with the controller.

**Answer: B**

The supervisor has described a control intended to prevent payment of unauthorized travel expenses. The internal auditor's best course of action is to test the control to determine whether it is actually in place and operating effectively. The most reliable information for this purpose is to inspect a sample of the relevant documents. Engagement information is obtained through observation, inquiry and examination of records. When an internal auditor becomes aware of a policy or procedure through inquiry of employees or reading a written plan, it is best for the internal auditor then to examine records to determine whether the policy or procedure is actually followed in practice.

**QUESTION: 7**

An organization has outsourced many services, including waste collection, cafeteria, and custodial services previously performed internally. Management requests an evaluation of contract compliance and the overall performance of the organizations performing the outsourced activities. Which of the following engagement procedures is the least effective in accomplishing the engagement objectives?

- A. Comparison of current costs with the costs of performing the same services before they were outsourced.
- B. Comparison of charges with the terms of the outsourcing contract.
- C. A survey of users' satisfaction with the services performed by the outsourcer.
- D. Comparison of identified activities for each outsourcer with "best practices" of other outsourcers.

**Answer: D**

The crux of such an engagement is whether the anticipated objectives were achieved at the lowest cost to the organization and whether the outsourcer is meeting the terms of the contract. The efficiency of the outsourcing firm is not an issue if the cost to the organization is the best available. Furthermore, "best practices" for outsourcers are scarcely documented.

**QUESTION: 8**

During an operational audit engagement, an auditor compared the inventory turnover rate of a subsidiary with established industry standards in order to:

- A. Evaluate the accuracy of internal financial reports.
- B. Test controls designed to safeguard assets.
- C. Determine compliance with corporate procedures regarding inventory levels.
- D. Assess performance and indicate where additional audit work maybe needed.

**Answer: D**

Inventory turnover provides analytical information. It equals cost of sales divided by average inventory. A low turnover ratio implies that inventory is excessive, for example, because the goods are obsolete or because the organization has overestimated demand. Accordingly, such an analytical procedure will provide an indication of the efficiency and effectiveness of the subsidiary's management of the inventory.

**QUESTION: 9**

Which of the following procedures would provide the best evidence of the effectiveness of a credit-granting function?

- A. Observe the process.
- B. Review the trend in receivables write-offs.
- C. Ask the credit manager about the effectiveness of the function.
- D. Check for evidence of credit approval on a sample of customer orders.

**Answer: B**

The purpose of the credit-granting function is to minimize write-offs while accepting sales likely to result in collection. Trend (time-series) analysis is an analytical procedure that relies on experience, i.e., the change in a variable overtime. Thus, reviewing the trend in write-offs will provide some insight concerning the minimization of write-offs.

**QUESTION: 10**

A production manager ordered excessive raw materials for delivery to a separate company owned by the manager. The manager falsified receiving documents and

approved the invoices for payment. Which of the following audit procedures would most likely detect this fraud?

- A. Select a sample of cash disbursements and compare purchase orders, receiving reports, invoices, and check copies.
- B. Select a sample of cash disbursements and confirm the amount purchased, purchase price, and date of shipment with the vendors.
- C. Observe the receiving dock and count materials received; compare the counts to receiving reports completed by receiving personnel.
- D. Perform analytical tests, comparing production, materials purchased, and raw materials inventory levels; investigate differences.

**Answer:** D

Analytical auditing procedures provide internal auditors with an efficient and effective means of assessing and evaluating information collected in an engagement. The assessment results from comparing information with expectations identified or developed by the internal auditor. Analytical auditing procedures are useful in identifying, among other things, differences that are not expected, the absence of differences when they are expected, potential errors, potential irregularities or illegal acts, or other unusual or nonrecurring transactions or events. Hence, the analytical procedures should identify an unexplained increase in materials used. The legislative auditing bureau of a country is required to perform compliance engagements involving organizations that are issued defense contracts on a cost-plus basis. Contracts are clearly written to define acceptable costs, including developmental research cost and appropriate overhead rates. During the past year, the government has engaged in extensive outsourcing of its activities. The outsourcing included contracts to run cafeterias, provide janitorial services, manage computer operations and systems development, and provide engineering of construction projects. The contracts were modeled after those used for years in the defense industry. The legislative internal auditors are being called upon to expand their efforts to include compliance engagements involving these contracts. Upon initial investigation of these outsourced areas, the internal auditor found many areas in which the outsourced management has apparently expanded its authority and responsibility. For example, the contractor that manages computer operations has developed a highly sophisticated security program that may represent the most advanced information security in the industry. The internal auditor reviews the contract and sees reference only to providing appropriate levels of computing security. The internal auditor suspects that the governmental agency may be incurring developmental costs that the outsourcer may use for competitive advantage in marketing services to other organizations.

**QUESTION:** 11

The internal auditor is concerned about whether all the debits to the computer security expense account are appropriate expenditures. The most appropriate engagement

procedure is to

- A. Take an attribute sample of computing invoices and determine whether all invoices are properly classified.
- B. Perform an analytical review comparing the amount of expenditures incurred this year with the amounts incurred on a trend line for the past 5 years.
- C. Take an attribute sample of employee wage expenses incurred by the outsourcing organization and trace to the proper account classification.
- D. Take a sample of all debits to the account and investigate by examining source documents to determine the nature and authority of the expenditure.

**Answer:** D

The sample should be taken from the population of interest, that is, debits to the expense account. The proper engagement procedure is to vouch the accounting records back to the source documents.

**QUESTION:** 12

One of the audit objectives for a manufacturing company is to verify that all rework is reviewed by the production engineer. Which of the following audit procedures would provide the best evidence for meeting this objective?

- A. Trace a sample of entries in the rework log to remedial action taken.
- B. Trace a sample of rework orders to entries in the rework log.
- C. Trace a sample of entries in the review log to rework orders.
- D. Trace a sample of rework orders to entries in the review log.

**Answer:** D

The evidence of rework performed is the set of rework order forms. The best evidence of what was reviewed consists of the entries in the review log. To determine whether all rework was reviewed, the auditor's direction of testing should be from the population of all the rework that was performed (rework order forms) and to the evidence of review (review log).

**QUESTION:** 13

A transportation department maintains its vehicle inventory and maintenance records in a database. Which of the following audit procedures is most appropriate for evaluating the accuracy of the database information?

- A. Verify a sample of the records extracted from the database with supporting documentation.



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