



Internal Control
In Session Detail Review Material

Disclaimer:

These questions are designed to provide the student with a general review of areas covered on the CMA Entrance Examination. While the topic coverage and the number of response stems is consistent with that on the Entrance Examination, the level of difficulty of questions on the Entrance Exam tends to be a notch higher for the following reasons -- the length of question (entrance exam questions tend to be longer requiring more time to read); the types of distracters (the entrance examination tends to use distracters such as none of the above, all of the above and both x and y to a larger degree than other examinations); and the direction of the calculation (the entrance examination will often have you work back to front, middle to either front to back and so on).

Use of the Material

These questions will be covered in depth in the review session. The pace will be quick (frantic?) so students are advised to at least have read them (and at best have worked through them under exam conditions).

1. One of the major control features in any automated accounting information system is the valid code check. As a systems designer, in which accounting system would one insert a preventive control to ensure validity of a supplier's part number?
 - a) Accounts payable system.
 - b) Purchase order system.
 - c) Inventory control system.
 - d) Production control system

2. The primary responsibility for preventing fraud in an organization lies with
 - a) management.
 - b) the internal auditor.
 - c) the audit committee of the board of directors.
 - d) the external auditor

3. During the audit of the receiving department, an internal auditor examined a physical shipment of goods to verify the accuracy of the completed receiving report. Evidence showed that the number of units received in the shipment did not agree with the quantity shown on the receiving report. Which of the following is a weakness in the internal control system that may have led to this error?
 - a) Displaying amounts ordered on the receiving department' s copy of the purchase order.
 - b) Forwarding the receiving report to the material stores clerk along with the goods received.
 - c) Comparing the quantity on the packing slip to the quantity ordered.
 - d) Failing to determine the quality and reliability of vendors in the vendor selection process.

4. Which of the following would lend itself to sequence coding in an accounting information system?
 - a) Purchase orders.
 - b) Product codes.
 - c) Employee numbers.
 - d) General ledger account numbers.

5. Compliance testing is undertaken by internal auditors to obtain audit evidence that the auditee's
 - a) operational procedures conform to the objectives of economy, efficiency and effectiveness.
 - b) established systems are consistent with the policies, plans, procedures and regulations of the organization.
 - c) business practices are consistent with the principles of effective management.
 - d) policies and procedures are consistent with the strategic plan and are being implemented as intended.

6. The internal auditor has noted that signed cheques are returned to the accounts payable department for distribution. The internal auditor's best evaluation of this procedure is that it is
 - a) a useful control to ensure that cheques have been properly signed.
 - b) an inefficient procedure; it would be preferable for accounts payable personnel to sign and distribute the cheques.
 - c) a control weakness that should be eliminated at once.
 - d) an example of typical disbursement processing that warrants no comment by the auditor.

7. Which of the following controls would be most efficient in reducing common data input errors?
 - a) Edit checks.
 - b) Keystroke verification.
 - c) Balancing and reconciliation.
 - d) Batch totals.

8. An audit committee should mainly consist of
 - a) officers of the corporation.
 - b) financial management and the internal audit director.
 - c) directors who are not officers of the corporation.
 - d) members of the corporation's board of directors.

9. According to the "Independence" professional practice standard for internal auditing, the objectivity of internal auditors would be adversely affected if
 - a) they recommend standards of control for systems.
 - b) they draft procedures for systems.
 - c) they review system procedures prior to implementation.
 - d) the results of their work are reviewed by the director of internal auditing before releasing the related audit report.

10. A purchasing agent received expensive gifts from a vendor in return for directing a significant amount of business to that vendor. Which of the following company policies would most effectively prevent such an occurrence?
- a) All purchases exceeding specified dollar amounts should be approved by an official who determines compliance with budgetary requirements.
 - b) Important high-volume materials should regularly be purchased from at least two different sources in order to ensure supply protection.
 - c) Competitive bids should be solicited on purchases to the maximum extent that is practicable.
 - d) The purchasing functions should be decentralized so each department manager or foreman does his/her own purchasing.
11. Preventive controls are located throughout the entire EDP system. Identify the control which would NOT be considered a preventive control?
- a) Pre-numbered forms.
 - b) Logical test.
 - c) Limit test or limit check.
 - d) Control register.
12. Which of the following situations constitutes a weakness in a password-based computer security system?
- a) The computer security system generates new passwords for users on a periodic basis, the passwords being sets of real words rather than random streams of characters.
 - b) A single password is assigned to the data entry function associated with a specific data collection file.
 - c) When a user logs onto a terminal, the password is used to authenticate that user, after which the terminal stays open and active until the user signs off.
 - d) The master file of passwords is stored in an encrypted manner so that only a data security administrator with the encryption key can read them.

13. Management believes that some specific sales commissions for the year were too large. The accuracy of the recorded commission expense for specific salespersons is best determined by
- re-computing some of the selected sales commissions.
 - calculating commission ratios.
 - using analytical procedures.
 - testing for overall reasonableness.
14. Which of the following best describes comprehensive auditing?
- It involves the attest function, compliance audit in the public sector and the value for money audit.
 - It focuses on the operations results through the verification of financial data, but does not consider the concept of value for money.
 - It is primarily concerned with auditing for fraud and secondarily concerned with the value for money auditing.
 - It assesses the comprehensive audit risks and the potential liability involved in an audit.
15. You work in a chartered bank. The bank is financing the purchase of a warehouse by a large Canadian corporation. The bank will secure the loan by a mortgage. Which of the following is most important for the bank to do following the loan transaction?
- Appraise the land and building.
 - Ensure that the buyer assigns proceeds of insurance to the bank.
 - Confirm that the purchaser has sole possession of the warehouse.
 - Register the mortgage.
16. The primary reason for an internal auditor to use statistical sampling versus non-statistical sampling is
- to avoid having to examine the whole population.
 - to obtain data representative of the population.
 - to be able to quantify the risk of making an incorrect decision.
 - to meet requirements of auditing standards.