

Internal Control

MCQs

Contains: in a random basis

Gleim Book

Gleim CD

IMA - Retired 2005

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By: Mohamed "hengoo" to dvd4arab.com members

Gleim CMA Test Prep: Part 1: Financial Planning, Performance, and Control (249 questions)

[Fact Pattern #1]

A certified internal auditor is the chief audit executive for a large city and is planning the engagement work schedule for the next year. The city has a number of different funds, some that are restricted in use by government grants and some that require compliance reports to the government. One of the programs for which the city has received a grant is job retraining and placement. The grant specifies certain conditions a participant in the program must meet to be eligible for the funding.

[1] Gleim #: 9.4.142 -- Source: CIA 1196 I-7

(Refers to Fact Pattern #1)

The internal auditors randomly select participants in the job retraining program for the past year to verify that they had met all the eligibility requirements. This type of engagement is concerned with

- A. Operational effectiveness.
- B. Program results.
- C. Compliance.
- D. Economy and efficiency.

[2] Gleim #: 9.4.168 -- Source: CIA 589 I-13

The objectives of a functional audit could involve evaluating the company's

- A. Employee educational benefits program.
- B. Construction contracts.
- C. Personnel department.
- D. Manufacturing operations.

[3] Gleim #: 10.1.36 -- Source: CPA 1188 A-32

Proper segregation of functional responsibilities to achieve effective internal control calls for separation of the functions of

- A. Authorization, recording, and custody.
- B. Authorization, payment, and recording.
- C. Authorization, execution, and payment.
- D. Custody, execution, and reporting.

[4] Gleim #: 9.2.103 -- Source: CIA 1190 I-18

A multinational corporation has an office in a foreign branch with a monetary transfer facility. Effective internal control requires that

- A. The hiring of individual branch employees be approved by the headquarters office.
- B. Foreign currency translation rates be computed separately by two branch employees in the same department.
- C. The person making wire transfers not reconcile the bank statement.
- D. The branch manager not deliver payroll checks to employees.

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[5] Gleim #: 10.1.6 -- Source: CMA 0205 .4-10

An accounting system identification code that uses a sum-of-digits check digit will detect all of the following errors except

- A. Transcription errors.
- B. Validity errors.
- C. Completeness errors.
- D. Transposition errors.

[6] Gleim #: 9.4.144 -- Source: CIA 1196 I-9

(Refers to Fact Pattern #1)

The internal auditors must determine the applicable laws and regulations. Which of the following procedures would be the least effective in learning about the applicable laws and regulations?

- A. Review applicable grant agreements.
- B. Review prior-year working papers and inquire of officials as to changes.
- C. Discuss the matter with the audit committee and make inquiries as to the nature of the requirements and the audit committee's objectives for the engagement.
- D. Make inquiries of the city's chief financial officer, legal counsel, or grant administrators.

[7] Gleim #: 9.2.32 -- Source: Publisher

Which of the following is not an internal control objective of the revenue cycle?

- A. Transactions relating to revenue are properly recorded.
- B. Appropriate goods are ordered so that sales can be made.
- C. Revenue cycle transactions are properly executed.
- D. Custody over assets resulting from the revenue cycle is properly maintained.

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[Fact Pattern #2]

ABC is a major retailer with over 52 department stores. The marketing department is responsible for

1. Conducting marketing surveys
2. Recommending locations for new store openings
3. Ordering products and determining retail prices for the products
4. Developing promotion and advertising for each line of products
5. Determining the pricing of special sale items

The marketing department has separate product managers for each product line. Each product manager is given a purchasing budget by the marketing manager. Product managers are not rotated among product lines because of the need to acquire product knowledge and to build relationships with vendors. A subsection of the department does marketing surveys.

In addition to ordering and pricing, the product managers also determine the timing and method of product delivery. Products are delivered to a central distribution center where goods are received, retail prices are marked on the product, and the goods are segregated for distribution to stores. Receiving documents are created by scanning in receipts; the number of items scanned in are reconciled with the price tags generated and attached to products. The average product spends between 12 and 72 hours in the distribution center before being loaded on trucks for delivery to each store. Receipts are recorded at the distribution center, thus the company has not found the need to maintain a receiving function at each store.

Each product manager is evaluated on a combination of sales and gross profit generated from their product line. Many products are seasonal and individual store managers can require that seasonal products be "cleared out" to make space for the next season's products.

[8] Gleim #: 9.2.81 -- Source: CIA 595 I-12

(Refers to Fact Pattern #2)

A control deficiency associated with the given scenario is

- A. The product manager negotiates the purchase price and sets the selling price.
- B. Evaluating product managers by total gross profit generated by product line will lead to dysfunctional behavior.
- C. The store manager can require items to be closed out, thus affecting the potential performance evaluation of individual product managers.
- D. There is no receiving function located at individual stores.

[9] Gleim #: 10.1.7 -- Source: CMA 1296 4-29

In order to prevent, detect, and correct errors and unauthorized tampering, a payroll system should have adequate controls. The best set of controls for a payroll system includes

- A. Employee supervision, batch totals, record counts of each run, and payments by check.
- B. Batch and hash totals, record counts of each run, proper separation of duties, passwords and user codes, and backup copies of activity and master files.
- C. Passwords and user codes, batch totals, employee supervision, and record counts of each run.
- D. Batch totals, record counts, user codes, proper separation of duties, and online edit checks.

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[10] Gleim #: 10.1.32 -- Source: CMA 687 5-9

Turnaround documents

- A. Are generated by the computer and eventually return to it.
- B. Generally circulate only within the computer center.
- C. Are only used internally in an organization.
- D. Are largely restricted to use in a manual system.

[11] Gleim #: 9.1.22 -- Source: CMA 0205 1-27

When management of the sales department has the opportunity to override the system of internal controls of the accounting department, a weakness exists in

- A. The control environment.
- B. Monitoring.
- C. Risk management.
- D. Information and communication.

[12] Gleim #: 10.1.16 -- Source: CMA 1290 4-21

Which one of the following represents a lack of internal control in a computer-based system?

- A. Provisions exist to protect data files from unauthorized access, modification, or destruction.
- B. Programmers have access to change programs and data files when an error is detected.
- C. Provisions exist to ensure the accuracy and integrity of computer processing of all files and reports.
- D. Any and all changes in applications programs have the authorization and approval of management.

[13] Gleim #: 9.2.58 -- Source: CIA 586 II-17

Appropriate control over obsolete materials requires that they be

- A. Determined by an approved authority to be lacking in regular usability.
- B. Carried at cost in the accounting records until the actual disposition takes place.
- C. Retained within the regular storage area.
- D. Sorted, treated, and packaged before disposition takes place, in order to obtain the best selling price.

[14] Gleim #: 9.2.106 -- Source: CIA 589 II-10

Which of the following observations, made during the preliminary survey of a local department store's disbursement cycle, reflects a control strength?

- A. Individual department managers use prenumbered forms to order merchandise from vendors.
- B. The receiving department is given a copy of the purchase order complete with a description of goods, quantity ordered, and extended price for all merchandise ordered.
- C. The treasurer's office prepares checks for suppliers based on vouchers prepared by the accounts payable department.
- D. Individual department managers are responsible for the movement of merchandise from the receiving dock to storage or sales areas as appropriate.

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[15] Gleim #: 9.2.46 -- Source: CMA 690 3-25

Auditors document their understanding of internal control with questionnaires, flowcharts, and narrative descriptions. A questionnaire consists of a series of questions concerning controls that auditors consider necessary to prevent or detect errors and fraud. The most appropriate question designed to contribute to the auditors' understanding of the completeness of the expenditure (purchases-payables) cycle concerns the

- A. Use and accountability of prenumbered checks.
- B. Internal verification of quantities, prices, and mathematical accuracy of sales invoices.
- C. Qualifications of accounting personnel.
- D. Disposition of cash receipts.

[16] Gleim #: 9.2.101 -- Source: CIA 1191 I-12

The treasurer makes disbursements by check and reconciles the monthly bank statements to accounting records. Which of the following best describes the control impact of this arrangement?

- A. The treasurer will be able to make unauthorized adjustments to the cash account.
- B. Internal control will be enhanced because these are duties that the treasurer should perform.
- C. Controls will be enhanced because the treasurer will have two opportunities to discover inappropriate disbursements.
- D. The treasurer will be in a position to make and conceal unauthorized payments.

[17] Gleim #: 9.2.109 -- Source: CMA 0205 1-29

Segregation of duties is a fundamental concept in an effective system of internal control. Nevertheless, the internal auditor must be aware that this safeguard can be compromised through

- A. Irregular employee reviews.
- B. Lack of training of employees.
- C. Absence of internal auditing.
- D. Collusion among employees.

[18] Gleim #: 10.1.3 -- Source: CIA 596 III-51

To properly control access to accounting database files, the database administrator should ensure that database system features are in place to permit

- A. Updating from privileged utilities.
- B. User updates of their access profiles.
- C. Read-only access to the database files.
- D. Access only to authorized logical views.

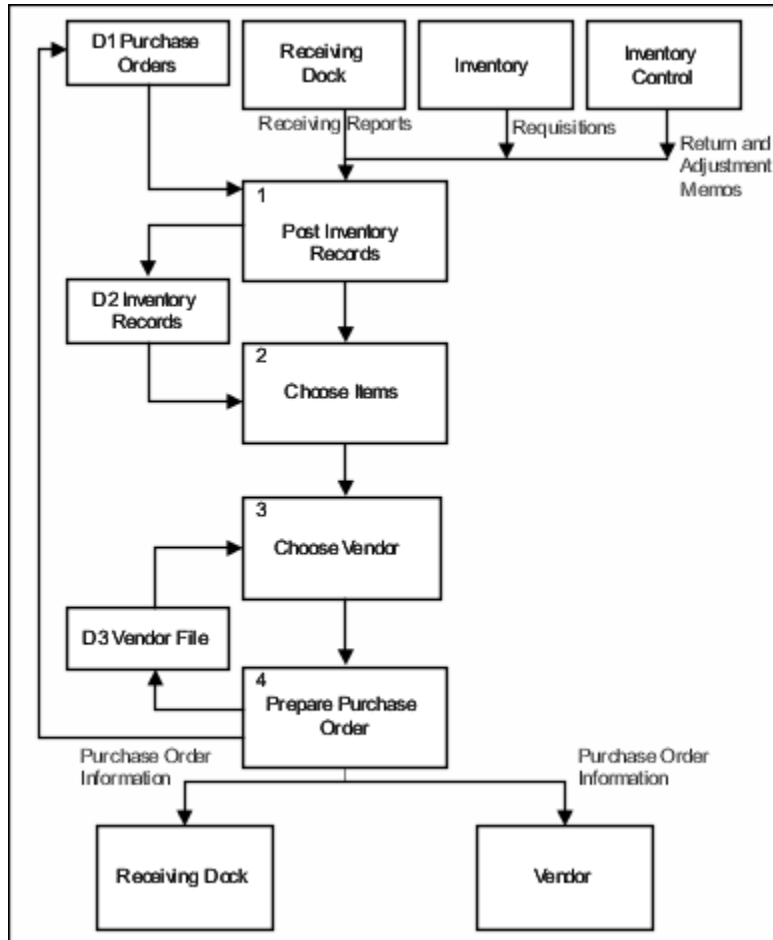
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[19] Gleim #: 10.1.20 -- Source: CMA 685 5-27

An online data entry technique that can be employed when inexperienced personnel enter data is the use of

- A. Prompting.
- B. Checkpoints.
- C. Compatibility tests.
- D. Overflow procedures.

[Fact Pattern #3]



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[20] Gleim #: 9.2.94 -- Source: CMA 690 5-5

(Refers to Fact Pattern #3)

The documents that the Accounts Payable Department must review before it can properly authorize payment for the purchase of materials and supplies are

- A. Vendor's invoice, acknowledgment purchase order, and receiving report.
- B. Vendor's invoice, purchase requisition, and acknowledgment purchase order.
- C. Vendor's monthly statement, purchase order, and voucher.
- D. Vendor's invoice, purchase order, and receiving report.

[21] Gleim #: 10.2.56 -- Source: Publisher

Which of the following is not an important aspect of a disaster recovery plan?

- A. Automatic failover.
- B. Data conversion operators.
- C. A hot-site recovery system.
- D. Focus on disaster prevention.

[22] Gleim #: 10.1.23 -- Source: CMA 686 5-12

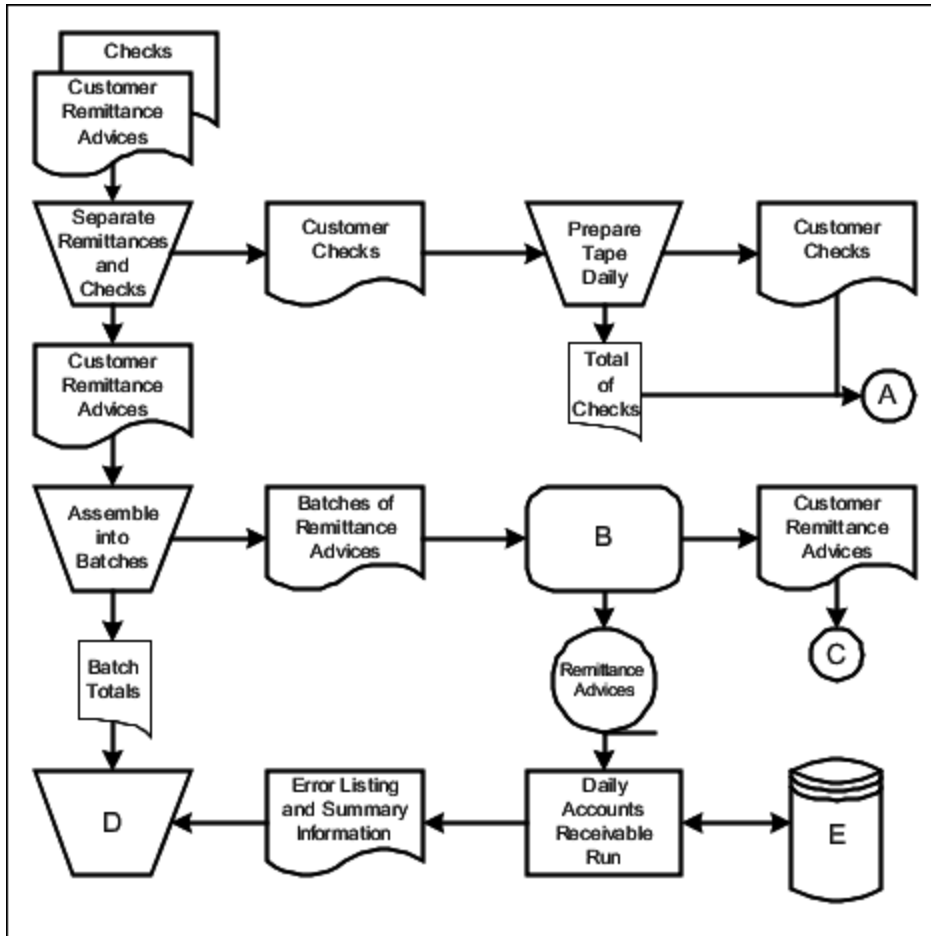
A control designed to catch errors at the point of data entry is

- A. Checkpoints.
- B. A self-checking digit.
- C. A batch total.
- D. A record count.

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[Fact Pattern #4]

This flowchart depicts the processing of daily cash receipts for Rockmart Manufacturing.



[23] Gleim #: 10.2.58 -- Source: CMA 1287 5-7

(Refers to Fact Pattern #4)

The customer checks accompanied by the control tape (refer to symbol A) are

- A. Taken by the mail clerk to the bank for deposit daily.
- B. Accumulated for a week and then forwarded to the treasurer for deposit weekly.
- C. Forwarded daily to the billing department for deposit.
- D. Forwarded to the treasurer for deposit daily.

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[24] Gleim #: 9.2.48 -- Source: Publisher

Internal control can provide only reasonable assurance of achieving entity control objectives. One factor limiting the likelihood of achieving those objectives is that

- A. The auditor's primary responsibility is the detection of fraud.
- B. The cost of internal control should not exceed its benefits.
- C. Management monitors internal control.
- D. The board of directors is active and independent.

[25] Gleim #: 10.2.41 -- Source: CPA AUD R02-5

Which of the following is a computer program that appears to be legitimate but performs some illicit activity when it is run?

- A. Hoax virus.
- B. Killer application.
- C. Trojan horse.
- D. Web crawler.

[26] Gleim #: 9.2.34 -- Source: CMA 686 3-20

The procedure that would best discourage the resubmission of vendor invoices after they have been paid is

- A. The mailing of payments directly to payees by accounting personnel.
- B. A requirement for double endorsement of checks.
- C. The cancellation of vouchers by accounting personnel.
- D. The cancellation of vouchers by treasurer personnel.

[27] Gleim #: 9.2.84 -- Source: CMA 1289 5-2

Payroll systems should have elaborate controls to prevent, detect, and correct errors and unauthorized tampering. The best set of controls for a payroll system includes

- A. Employee supervision, batch totals, record counts of each run, and payments by check.
- B. Batch and hash totals, record counts of each run, proper separation of duties, special control over unclaimed checks, and backup copies of activity and master files.
- C. Passwords and user codes, batch totals, employee supervision, and record counts of each run.
- D. Sign tests, limit tests, passwords and user codes, online edit checks, and payments by check.

[28] Gleim #: 9.2.41 -- Source: CIA 590 I-9

Which of the following activities represents both an appropriate personnel department function and a deterrent to payroll fraud?

- A. Collection and retention of unclaimed paychecks.
- B. Authorization of overtime.
- C. Authorization of additions and deletions from the payroll.
- D. Distribution of paychecks.

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[29] Gleim #: 9.2.69 -- Source: CIA 1192 I-18

Controls can be classified according to the function they are intended to perform; for example, to discover the occurrence of an unwanted event (detective), to avoid the occurrence of an unwanted event (preventive), or to ensure the occurrence of a desirable event (directive). Which of the following is a directive control?

- A. Recording every transaction on the day it occurs.
- B. Monthly bank statement reconciliations.
- C. Requiring all members of the internal auditing department to be CIAs.
- D. Dual signatures on all disbursements over a specific dollar amount.

[30] Gleim #: 9.2.89 -- Source: CMA 690 5-10

Organizational independence is required in the processing of customers' orders in order to maintain an internal control structure. Which one of the following situations is not a proper separation of duties in the processing of orders from customers?

- A. Approval by Credit Department of a sales order prepared by the Sales Department.
- B. Shipping of goods by the Shipping Department that have been retrieved from stock by the Finished Goods Storeroom Department.
- C. Invoice preparation by the Billing Department and posting to customers' accounts by the Accounts Receivable Department.
- D. Approval of a sales credit memo because of a product return by the Sales Department with subsequent posting to the customer's account by the Accounts Receivable Department.

[31] Gleim #: 9.4.165 -- Source: CIA 590 I-50

When conducting fraud investigations, internal auditors should

- A. Clearly indicate the extent of the internal auditors' knowledge of the fraud when questioning suspects.
- B. Assign personnel to the investigation in accordance with the engagement schedule established at the beginning of the fiscal year.
- C. Perform its investigation independent of lawyers, security personnel, and specialists from outside the organization who are involved in the investigation.
- D. Assess the probable level of, and the extent of complicity in, the fraud within the organization.

[32] Gleim #: 10.1.15 -- Source: CMA 687 5-5

The online data entry control called preformatting is

- A. A check to determine if all data items for a transaction have been entered by the terminal operator.
- B. A series of requests for required input data that requires an acceptable response to each request before a subsequent request is made.
- C. A program initiated prior to regular input to discover errors in data before entry so that the errors can be corrected.
- D. The display of a document with blanks for data items to be entered by the terminal operator.

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[33] Gleim #: 10.1.19 -- Source: CMA 685 5-25

Which one of the following is the best reason for developing a computer security plan?

- A. Recovery from the damage associated with any identified threats can be assured.
- B. The user departments can be assured that control policies are in place and their data files are secure.
- C. A company can select the set of control policies and procedures that optimize computer security relative to cost.
- D. All possible threats associated with the data processing equipment are identified.

[34] Gleim #: 10.1.5 -- Source: CMA 695 4-23

Data input validation routines include

- A. Passwords.
- B. Hash totals.
- C. Terminal logs.
- D. Backup controls.

[35] Gleim #: 9.2.65 -- Source: CIA 1186 I-9

Management wishes to include in its internal controls over factory payroll a procedure to ensure that employees are paid only for work actually performed. To meet this objective, which of the following internal control actions would be most appropriate?

- A. Have supervisors distribute paychecks to employees in their sections.
- B. Keep unclaimed paychecks in a vault.
- C. Compare piecework records with inventory additions from production.
- D. Use time cards.

[36] Gleim #: 10.2.46 -- Source: CIA 1195 III-37

An organization installed antivirus software on all its personal computers. The software was designed to prevent initial infections, stop replication attempts, detect infections after their occurrence, mark affected system components, and remove viruses from infected components. The major risk in relying on antivirus software is that antivirus software may

- A. Interfere with system operations.
- B. Consume too many system resources.
- C. Not detect certain viruses.
- D. Make software installation overly complex.

[37] Gleim #: 10.1.35 -- Source: CPA 1194 A-26

Proper segregation of duties reduces the opportunities to allow persons to be in positions both to

- A. Journalize entries and prepare financial statements.
- B. Record cash receipts and cash disbursements.
- C. Establish internal control and authorize transactions.
- D. Perpetrate and conceal errors and fraudulent acts.

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[38] Gleim #: 9.4.156 -- Source: CIA 591 I-17

The personnel department receives an edit listing of payroll changes processed at every payroll cycle. If it does not verify the changes processed, the result could be

- A. Undetected errors in payroll rates for new employees.
- B. Labor hours charged to the wrong account in the cost reporting system.
- C. Employees not being asked if they want to contribute to the company pension plan.
- D. Inaccurate Social Security deductions.

[39] Gleim #: 9.1.21 -- Source: CMA 0205 I-27

Risk assessment is a process

- A. That assesses the quality of internal control throughout the year.
- B. That establishes policies and procedures to accomplish internal control objectives.
- C. Of identifying and capturing information in a timely fashion.
- D. Designed to identify potential events that may affect the entity.

[40] Gleim #: 9.4.163 -- Source: CIA 1194 I-64

During an engagement to review payments under a construction contract with a local firm, the internal auditor found a recurring monthly reimbursement for rent at a local apartment complex. Each reimbursement was authorized by the same project engineer. The internal auditor found no provision for payment of temporary living expenses in the construction contract. Discussion with the project engineer could not resolve the matter. The internal auditor should

- A. Wait until the engineer is surrounded by plenty of witnesses and then inquire about the payments.
- B. Call the engineer into a private meeting to confront the situation.
- C. Inform the chief audit executive.
- D. Complete the engagement as scheduled, noting the recurring reimbursement in the working papers.

[41] Gleim #: 10.2.55 -- Source: CMA 689 5-2

The graphic portrayal of the flow of data and the information processing of a system, including computer hardware, is best displayed in a

- A. System flowchart.
- B. Program flowchart.
- C. Data-flow diagram.
- D. Gantt chart.

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[42] Gleim #: 9.2.95 -- Source: CMA 690 5-6

The document that is the authorization to initiate the manufacture of goods is referred to as a

- A. Production order.
- B. Raw materials requisition.
- C. Daily production schedule.
- D. Bill of materials.

[43] Gleim #: 10.2.67 -- Source: CPA 1177 A-54

When documenting the understanding of a client's internal control, the independent auditor sometimes uses a systems flowchart, which can best be described as a

- A. Graphic illustration of the flow of operations that is used to replace the auditor's internal control questionnaire.
- B. Symbolic representation of a system or series of sequential processes.
- C. Pictorial presentation of the flow of instructions in a client's internal computer system.
- D. Diagram that clearly indicates an organization's internal reporting structure.

[44] Gleim #: 9.2.87 -- Source: CMA 690 5-7

The document that is used to record the actual work performed for a specific product by each factory employee is called a(n)

- A. Production order cost summary.
- B. Payroll register.
- C. Job time ticket.
- D. Operations list.

[45] Gleim #: 9.2.64 -- Source: CIA 1193 II-11

In an audit of a purchasing department, which of the following ordinarily would be considered a risk factor?

- A. Purchase specifications are developed by the department requesting the material.
- B. Purchases are made against blanket or open purchase orders for certain types of items.
- C. There is a failure to rotate purchases among suppliers included on an approved vendor list.
- D. Purchases are made from parties related to buyers or other company officials.

[46] Gleim #: 9.2.110 -- Source: CMA 1283 3-15

For an internal audit department to be considered as a relevant internal control by the external auditor, the internal auditor must

- A. Use statistical sampling procedures.
- B. Perform operational audits.
- C. Be cost effective.
- D. Be independent of the accounting function.

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[47] Gleim #: 9.2.57 -- Source: CMA 686 3-14

Which one of the following would not be considered an internal control structure policy or procedure relevant to a financial statement audit?

- A. Comparison of physical inventory counts to perpetual inventory records.
- B. Maintenance of control over unused checks.
- C. Timely reporting and review of quality control results.
- D. Periodic reconciliation of perpetual inventory records to the general ledger control account.

[48] Gleim #: 10.2.51 -- Source: Publisher

Attacks on computer networks may take many forms. Which of the following uses the computers of innocent parties infected with Trojan horse programs?

- A. A password-cracking attack.
- B. A distributed denial-of-service attack.
- C. A man-in-the-middle attack.
- D. A brute-force attack.

[49] Gleim #: 10.1.25 -- Source: CMA 687 5-7

Compatibility tests are sometimes employed to determine whether an acceptable user is allowed to proceed. In order to perform compatibility tests, the system must maintain an access control matrix. The one item that is not part of an access control matrix is a

- A. List of all authorized user code numbers and passwords.
- B. List of all files maintained on the system.
- C. Limit on the number of transaction inquiries that can be made by each user in a specified time period.
- D. List of all programs maintained on the system.

[50] Gleim #: 9.1.10 -- Source: CIA 1192 I-6

The audit committee may serve several important purposes, some of which directly benefit the internal audit activity. The most significant benefit provided by the audit committee to the internal audit activity is

- A. Reviewing copies of the procedures manuals for selected organizational operations and meeting with organizational officials to discuss them.
- B. Reviewing annual engagement work schedules and monitoring engagement results.
- C. Approving engagement work schedules, scheduling, staffing, and meeting with the internal auditors as needed.
- D. Protecting the independence of the internal audit activity (IAA) from undue management influence.

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[51] Gleim #: 9.4.125 -- Source: CIA 1196 III-30

The proper organizational role of internal auditing is to

- A. Assist the external auditor in order to reduce external audit fees.
- B. Serve as an independent, objective assurance and consulting activity that adds value to operations.
- C. Serve as the investigative arm of the board.
- D. Perform studies to assist in the attainment of more efficient operations.

[52] Gleim #: 9.3.120 -- Source: Publisher

Section 404 of the Sarbanes-Oxley Act of 2002 requires management of publicly traded corporations to do all of the following except

- A. Establish and document internal control procedures and to include in their annual reports a report on the company's internal control over financial reporting.
- B. Provide a report to include a statement of management's responsibility for internal control and of management's assessment of the effectiveness of internal control as of the end of the company's most recent fiscal year.
- C. Provide an identification of the framework used to evaluate the effectiveness of internal control and a statement that the external auditor has issued an attestation report on management's assessment.
- D. Provide a statement that the audit committee approves the choice of accounting policies and practices.

[53] Gleim #: 9.4.161 -- Source: CIA 0597 1-58

Which of the following statements is(are) correct regarding the deterrence of fraud?

- I. The primary means of deterring fraud is through an effective control system initiated by senior management.
 - II. Internal auditors are responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy of the internal control system.
 - III. Internal auditors should determine whether communication channels provide management with adequate and reliable information regarding the effectiveness of the control system and the occurrence of unusual transactions.
-
- A. I and II only.
 - B. I only.
 - C. I, II, and III.
 - D. II only.

[54] Gleim #: 10.1.29 -- Source: CMA 685 5-24

Control procedures over accounting information systems are referred to as general controls or application controls. The primary objective of application controls in a computer environment is to

- A. Provide controls over the electronic functioning of the hardware.
- B. Maintain the accuracy of the inputs, files, and outputs for specific applications.
- C. Ensure the separation of incompatible functions in the data processing departments.
- D. Plan for the protection of the facilities and backup for the systems.

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[55] Gleim #: 9.1.1 -- Source: CMA 685 3-17

One of the financial statement auditor's major concerns is to ascertain whether internal control is designed to provide reasonable assurance that

- A. Profit margins are maximized, and operational efficiency is optimized.
- B. The chief accounting officer reviews all accounting transactions.
- C. Corporate morale problems are addressed immediately and effectively.
- D. Financial reporting is reliable.

[56] Gleim #: 9.2.107 -- Source: CIA 1190 II-8

An internal auditor found that employee time cards in one department are not properly approved by the supervisor. Which of the following could result?

- A. Duplicate paychecks might be issued.
- B. Payroll checks might not be distributed to the appropriate payees.
- C. Employees might be paid for hours they did not work.
- D. The wrong hourly rate could be used to calculate gross pay.

[57] Gleim #: 9.3.117 -- Source: CMA 1285 3-30

The requirement of the Foreign Corrupt Practices Act of 1977 to devise and maintain adequate internal control is assigned in the Act to the

- A. Board of directors.
- B. Chief financial officer.
- C. Company as a whole with no designation of specific persons or positions.
- D. Director of internal auditing.

[58] Gleim #: 9.2.55 -- Source: CIA 1195 I-16

A restaurant food chain has over 680 restaurants. All food orders for each restaurant are required to be input into an electronic device which records all food orders by food servers and transmits the order to the kitchen for preparation. All food servers are responsible for collecting cash for all their orders and must turn in cash at the end of their shift equal to the sales value of food ordered for their I.D. number. The manager then reconciles the cash received for the day with the computerized record of food orders generated. All differences are investigated immediately by the restaurant. Corporate headquarters has established monitoring controls to determine when an individual restaurant might not be recording all its revenue and transmitting the applicable cash to the corporate headquarters. Which one of the following would be the best example of a monitoring control?

- A. The restaurant manager reconciles the cash received with the food orders recorded on the computer.
- B. All food orders must be entered on the computer, and segregation of duties is maintained between the food servers and the cooks.
- C. Cash is transmitted to corporate headquarters on a daily basis.
- D. Management prepares a detailed analysis of gross margin per store and investigates any store that shows a significantly lower gross margin.

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[59] Gleim #: 9.1.12 -- Source: CIA 593 II-13

To avoid creating conflict between the chief executive officer (CEO) and the audit committee, the chief audit executive (CAE) should

- A. Discuss all pending engagement communications to the CEO with the audit committee.
- B. Submit copies of all engagement communications to the CEO and audit committee.
- C. Request board establishment of policies covering the internal audit activity's (IAA's) relationships with the audit committee.
- D. Strengthen independence through organizational status.

[60] Gleim #: 9.4.145 -- Source: CIA 1193 II-13

Senior management has requested a compliance audit of the organization's employee benefits package. Which of the following is considered the primary engagement objective by both the chief audit executive and senior management?

- A. Benefit payments, when appropriate, are accurate and timely.
- B. Participation levels support continuation of individual programs.
- C. The level of organizational contributions is adequate to meet the program's demands.
- D. Individual programs are operating in accordance with contractual requirements and government regulations.

[61] Gleim #: 9.4.133 -- Source: Publisher

The chief audit executive's responsibility for assessing and reporting on control processes includes

- A. Arriving at a single assessment based solely on the work of the internal audit activity.
- B. Implementing the organization's governance processes.
- C. Overseeing the establishment of internal control processes.
- D. Communicating to senior management and the board an annual judgment about internal control.

[62] Gleim #: 9.4.136 -- Source: CIA 1188 II-3

In evaluating the effectiveness and efficiency with which resources are employed, an internal auditor is responsible for

- A. Verifying the existence of assets.
- B. Verifying the accuracy of asset valuation.
- C. Reviewing the reliability of operating information.
- D. Determining the extent to which adequate operating criteria have been established.

[63] Gleim #: 10.2.40 -- Source: Publisher

Which of the following is used for Internet security as opposed to data transmissions over secured transmission lines?

- A. Mapping.
- B. Parallel simulation.
- C. Concurrency controls.
- D. Firewalls.

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[64] Gleim #: 10.2.66 -- Source: CPA 1193 A-16

An advantage of using systems flowcharts to document information about internal control instead of using internal control questionnaires is that systems flowcharts

- A. Indicate whether control procedures are operating effectively.
- B. Provide a visual depiction of clients' activities.
- C. Reduce the need to observe clients' employees performing routine tasks.
- D. Identify internal control weaknesses more prominently.

[65] Gleim #: 10.2.64 -- Source: CIA 589 III-18

The diamond-shaped symbol is commonly used in flowcharting to show or represent a

- A. Process or a single step in a procedure or program.
- B. Decision point, conditional testing, or branching.
- C. Predefined process.
- D. Terminal output display.

[66] Gleim #: 9.1.20 -- Source: Publisher

Certain management characteristics may heighten the auditor's concern about the risk of material misstatements. The characteristic that is least likely to cause concern is that management

- A. Has an excessive interest in increasing the entity's stock price through use of unduly aggressive accounting practices.
- B. Operating and financing decisions are made by numerous individuals.
- C. Commits to unduly aggressive forecasts.
- D. Is interested in inappropriate methods of minimizing earnings for tax purposes.

[67] Gleim #: 10.1.17 -- Source: CMA 691 4-25

Edit checks in a computerized accounting system

- A. Should be performed on transactions prior to updating a master file.
- B. Must be installed for the system to be operational.
- C. Should be performed immediately prior to output distribution.
- D. Are preventive controls.

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[68] Gleim #: 9.4.137 -- Source: CIA 592 II-4

Which of the following best describes the internal audit activity's purpose in evaluating the adequacy of risk management, control, and governance processes?

- A. To determine whether the risk management, control, and governance processes ensure that the accounting records are correct and that financial statements are fairly stated.
- B. To determine whether the risk management, control, and governance processes provide reasonable assurance that the organization's objectives and goals are achieved efficiently and economically.
- C. To help determine the nature, timing, and extent of tests necessary to achieve engagement objectives.
- D. To ensure that material weaknesses in internal control are corrected.

[69] Gleim #: 9.2.79 -- Source: Publisher

Which group has the primary responsibility for the establishment, implementation, and monitoring of adequate controls in the posting of accounts receivable?

- A. Internal auditors.
- B. Accounting management.
- C. External auditors.
- D. Accounts receivable staff.

[70] Gleim #: 10.2.49 -- Source: CIA 1195 III-61

Because of competitive pressures to be more responsive to their customers, some organizations have connected their internal personal computer networks through a host computer to outside networks. A risk of this practice is that

- A. Viruses may gain entry to one or more company systems.
- B. Data downloaded to the personal computers may not be sufficiently timely.
- C. Software maintenance on the personal computers may become more costly.
- D. Uploaded files may not be properly edited and validated.

[71] Gleim #: 9.4.166 -- Source: CIA 1192 II-49

Internal auditors are responsible for reporting fraud to senior management and the board when

- A. Irregular transactions have been identified and are under investigation.
- B. The incidence of significant fraud has been established to a reasonable certainty.
- C. The review of all suspected fraud-related transactions is complete.
- D. Suspicious activities have been reported to the internal auditors.

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[72] Gleim #: 9.4.143 -- Source: CIA 1196 I-8

(Refers to Fact Pattern #1)

The chief audit executive plans an engagement to verify that the job retraining program complies with applicable grant provisions. One of the provisions is that the city adopt a budget for the program and subsequently follow procedures to ensure that the budget is adhered to and that only allowable costs are charged to the program. In performing an engagement concerning compliance with this provision, the internal auditors should perform all of the following procedures except

- A. Determine that the budget was reviewed and approved by supervisory personnel within the city.
- B. Select a sample of expenditures to determine that the expenditures are (1) properly classified as to type; (2) appropriate to the program; and (3) designed to meet the program's objectives.
- C. Compare actual results with budgeted results and determine the reason for deviations. Determine if such deviations have been approved by appropriate officials.
- D. Determine that the budget was reviewed and approved by supervisory personnel within the granting agency.

[73] Gleim #: 9.2.83 -- Source: CMA 1287 5-15

In an automated payroll processing environment, a department manager substituted the time card for a terminated employee with a time card for a fictitious employee. The fictitious employee had the same pay rate and hours worked as the terminated employee. The best control technique to detect this action using employee identification numbers would be a

- A. Hash total.
- B. Record count.
- C. Batch total.
- D. Subsequent check.

[74] Gleim #: 9.4.132 -- Source: CIA 1193 II-8

Directors, management, external auditors, and internal auditors all play important roles in creating proper control processes. Senior management is primarily responsible for

- A. Reviewing the reliability and integrity of financial and operational information.
- B. Implementing and monitoring controls designed by the board of directors.
- C. Ensuring that external and internal auditors oversee the administration of the system of risk management and control processes.
- D. Overseeing the establishment, administration, and assessment of control processes.

[75] Gleim #: 9.4.151 -- Source: Publisher

Which of the following statements is true?

- A. Much of consulting is a natural extension of assurance and investigative services and may represent informal or formal advice, analysis, or assessments.
- B. Consulting services may enhance the auditor's understanding of business processes or issues related to an assurance engagement but will always impair the auditor's or the internal audit activity's objectivity.
- C. Management should empower the internal audit activity to perform additional services if they do not represent a conflict of interest or detract from its obligations to the committee.
- D. An organization should not allow the internal audit activity to perform formal consulting tasks because this would impair their objectivity.

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[76] Gleim #: 9.1.6 -- Source: Publisher

A director of a corporation is best characterized as a(n)

- A. Fiduciary.
- B. Principal.
- C. Trustee.
- D. Agent.

[77] Gleim #: 9.2.52 -- Source: Publisher

Audit risk is a combination of three separate risks at the account-balance or class-of-transactions level. The first risk is inherent risk. The second risk is that material misstatements will not be prevented or detected by internal control. The third risk is that

- A. The auditor will reject a correct account balance as incorrect.
- B. The auditor will apply an inappropriate measure of audit materiality.
- C. The auditor will apply an inappropriate audit procedure.
- D. Material misstatements that occur will not be detected by the audit.

[78] Gleim #: 9.2.71 -- Source: CIA 1193 I-12

An audit of the receiving function at the company's distribution center revealed inadequate control over receipts. Which of the following controls would be appropriate for the receiving function?

- A. To ensure adequate separation of duties, the warehouse receiving clerk should work independently from the warehouse manager.
- B. Ensure that the warehouse receiving department has a purchase order copy with the units described, but both prices and quantities omitted.
- C. Ensure that the warehouse receiving department has a true copy of the original purchase order.
- D. Require that all receipts receive the approval of the warehouse manager.

[79] Gleim #: 9.2.36 -- Source: CIA 1187 I-12

An employee should not be able to visit the corporate safe-deposit box containing investment securities without being accompanied by another corporate employee. What would be a possible consequence of an employee's being able to visit the safe-deposit box unaccompanied?

- A. The employee could steal securities, and the theft would never be discovered.
- B. There would be no record of when company personnel visited the safe-deposit box.
- C. The employee could pledge corporate investments as security for a short-term personal bank loan.
- D. It would be impossible to obtain a fidelity bond on the employee.

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[80] Gleim #: 9.4.138 -- Source: CIA 593 I-5

The status of the internal audit activity should be free from the effects of irresponsible policy changes by management. The most effective way to ensure that freedom is to

- A. Establish an audit committee within the board.
- B. Adopt policies for the functioning of the internal audit activity.
- C. Develop written policies and procedures to serve as standards of performance for the internal audit activity.
- D. Have the internal audit charter approved by the board.

[81] Gleim #: 9.1.16 -- Source: CIA 1190 II-7

Which of the following features of a large manufacturer's organizational structure is a control weakness?

- A. The information systems department is headed by a vice president who reports directly to the president.
- B. The chief financial officer is a vice president who reports to the chief executive officer.
- C. The controller and treasurer report to the chief financial officer.
- D. The audit committee of the board consists of the chief executive officer, the chief financial officer, and a major shareholder.

[82] Gleim #: 9.4.149 -- Source: CIA 592 II-3

To improve their efficiency, internal auditors may rely upon the work of external auditors if it is

- A. Coordinated with internal auditing work.
- B. Conducted in accordance with the Code of Ethics.
- C. Primarily concerned with operational objectives and activities.
- D. Performed after the internal auditing work.

[83] Gleim #: 9.4.147 -- Source: CIA 1196 III-35

Which of the following is not a true statement about the relationship between internal auditors and external auditors?

- A. Sufficient meetings should be scheduled between internal and external auditors to ensure timely and efficient completion of the work.
- B. Internal auditors may provide engagement work programs and working papers to external auditors.
- C. Internal and external auditors may exchange engagement communications and management letters.
- D. Oversight of the work of external auditors is the responsibility of the chief audit executive.

[84] Gleim #: 9.4.131 -- Source: CIA 591 II-2

Which of the following activities is outside the scope of internal auditing?

- A. Evaluating controls over compliance with laws and regulations.
- B. Ascertaining the extent to which objectives and goals have been established.
- C. Safeguarding of assets.
- D. Assessing an operating department's effectiveness in achieving stated organizational goals.

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[85] Gleim #: 9.4.175 -- Source: CIA 593 I-37

An operational audit report that deals with the scrap disposal function in a manufacturing company should address

- A. Whether the physical inventory count of the scrap material agrees with the recorded amount.
- B. Whether the scrap material inventory is reported as a current asset.
- C. Whether the scrap material inventory is valued at the lower of cost or market.
- D. The efficiency and effectiveness of the scrap disposal function and include any findings requiring corrective action.

[86] Gleim #: 9.1.18 -- Source: CIA 1191 I-4

An audit committee of the board of directors of an organization is being established. Which of the following is normally a responsibility of the committee with regard to the internal audit activity (IAA)?

- A. Approval of the selection and dismissal of the chief audit executive (CAE).
- B. Development of the annual engagement work schedule.
- C. Determination of engagement observations appropriate for specific engagement communications.
- D. Approval of engagement work programs.

[87] Gleim #: 9.4.179 -- Source: CIA 1187 I-41

The primary reason for having written formal internal audit reports is to

- A. Record findings and recommended courses of action.
- B. Provide an opportunity for auditee response.
- C. Direct senior management to corrective actions.
- D. Provide a formal means by which the external auditor assesses potential reliance on the internal audit department.

[88] Gleim #: 9.4.181 -- Source: CMA 0205 1-34

Which one of the following forms of audit is **most** likely to involve a review of an entity's performance of specific activities in comparison to organizational-specific objectives?

- A. Information system audit.
- B. Financial audit.
- C. Compliance audit.
- D. Operational audit.

[89] Gleim #: 10.1.21 -- Source: CMA 685 5-28

Routines that use the computer to check the validity and accuracy of transaction data during input are called

- A. Edit programs.
- B. Integrated test facilities.
- C. Operating systems.
- D. Compiler programs.

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[90] Gleim #: 9.2.92 -- Source: CMA 690 5-3

(Refers to Fact Pattern #3)

Multiple copies of the purchase order are prepared for record keeping and distribution with a copy of the purchase order sent to the vendor and one retained by the Purchasing Department. In addition, for proper informational flow and internal control purposes, a version of the purchase order would be distributed to the

- A. Accounts Payable, Accounts Receivable, and Receiving Departments.
- B. Accounts Payable, Receiving, and Stores Control Departments.
- C. Accounts Payable, Receiving, and Inventory Control Departments.
- D. Accounts Payable, Receiving, and Production Planning Departments.

[91] Gleim #: 10.2.37 -- Source: Publisher

An Internet firewall is designed to provide adequate protection against which of the following?

- A. A Trojan horse application.
- B. A computer virus.
- C. Unauthenticated logins from outside users.
- D. Insider leaking of confidential information.

[92] Gleim #: 10.1.14 -- Source: CMA 687 5-4

Which one of the following input validation routines is not likely to be appropriate in a real-time operation?

- A. Redundant data check.
- B. Sequence check.
- C. Reasonableness check.
- D. Sign check.

[93] Gleim #: 9.2.75 -- Source: CMA 690 3-26

Control risk is the risk that a material misstatement in an account will not be prevented or detected on a timely basis by the client's internal control structure policies or procedures. The best control procedure to prevent or detect fictitious payroll transactions is

- A. Personnel department authorization for hiring, pay rate, job status, and termination.
- B. To use and account for prenumbered payroll checks.
- C. Periodic independent bank reconciliations of the payroll bank account.
- D. Internal verification of authorized pay rates, computations, and agreement with the payroll register.

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[94] Gleim #: 10.2.61 -- Source: CMA 1287 5-10

(Refers to Fact Pattern #4)

What is the appropriate description that should be placed in symbol D?

- A. Compare batch total and correct as necessary.
- B. Reconcile cash balances.
- C. Attach batch total to report and file.
- D. Proof report.

[95] Gleim #: 9.2.40 -- Source: CMA 689 3-16

Which one of the following situations represents an internal control weakness in the payroll department?

- A. The timekeeping function is independent of the payroll department.
- B. Payroll records are reconciled with quarterly tax reports.
- C. Payroll department personnel are rotated in their duties.
- D. Paychecks are distributed by the employees' immediate supervisor.

[96] Gleim #: 9.4.170 -- Source: CIA 1190 II-11

The chief executive officer wants to know whether the purchasing function is properly meeting its charge to "purchase the right materials at the right time in the right quantities." Which of the following types of engagements addresses this request?

- A. A compliance engagement relating to the purchasing function.
- B. An operational engagement relating to the purchasing function.
- C. A full-scope engagement relating to the manufacturing operation.
- D. A financial engagement relating to the purchasing department.

[97] Gleim #: 9.2.44 -- Source: CIA 1192 II-16

To minimize the risk that agents in the purchasing department will use their positions for personal gain, the organization should

- A. Direct the purchasing department to maintain records on purchase prices paid, with review of such being required each 6 months.
- B. Specify that all items purchased must pass value-per-unit-of-cost reviews.
- C. Request internal auditors to confirm selected purchases and accounts payable.
- D. Rotate purchasing agent assignments periodically.

[98] Gleim #: 9.3.115 -- Source: Publisher

Which of the following is not an aspect of the Foreign Corrupt Practices Act of 1977?

- A. It subjects management to fines and imprisonment.
- B. It requires the establishment of independent audit committees.
- C. It prohibits bribes to foreign officials.
- D. It requires an internal control system to be developed and maintained.

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[99] Gleim #: 9.2.68 -- Source: CIA 1189 I-9

An internal auditor noted that several shipments were not billed. To prevent recurrence of such nonbilling, the organization should

- A. Numerically sequence and independently account for all controlling documents (such as packing slips and shipping orders) when sales journal entries are recorded.
- B. Undertake a validity check with customers as to orders placed.
- C. Undertake periodic tests of gross margin rates by product line and obtain explanations of significant departures from planned rates.
- D. Release product for shipment only on the basis of credit approval by the credit manager or other authorized person.

[100] Gleim #: 10.1.12 -- Source: CMA 1290 4-22

The most critical aspect of separation of duties within information systems is between

- A. Management and users.
- B. Project leaders and programmers.
- C. Programmers and systems analysts.
- D. Programmers and computer operators.

[101] Gleim #: 9.2.96 -- Source: Publisher

Internal control cannot be designed to provide reasonable assurance regarding the achievement of objectives concerning

- A. Compliance with applicable laws and regulations.
- B. Elimination of all fraud.
- C. Effectiveness and efficiency of operations.
- D. Reliability of financial reporting.

[102] Gleim #: 9.2.39 -- Source: CMA 1288 3-23

If internal control is well designed, two tasks that should be performed by different persons are

- A. Approval of bad debt write-offs, and reconciliation of the accounts payable subsidiary ledger and controlling account.
- B. Recording of cash receipts and preparation of bank reconciliations.
- C. Distribution of payroll checks and approval of sales returns for credit.
- D. Posting of amounts from both the cash receipts journal and cash payments journal to the general ledger.

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[103] Gleim #: 9.2.74 -- Source: CMA 689 3-15

Which one of the following situations represents an internal control weakness in accounts receivable?

- A. Delinquent accounts are reviewed only by the sales manager.
- B. Internal auditors confirm customer accounts periodically.
- C. The cashier is denied access to customers' records and monthly statements.
- D. Customers' statements are mailed monthly by the accounts receivable department.

[104] Gleim #: 10.2.44 -- Source: CIA 1196 III-40

Which of the following is an indication that a computer virus is present?

- A. Unexplainable losses of or changes to data.
- B. Numerous copyright violations due to unauthorized use of purchased software.
- C. Inadequate backup, recovery, and contingency plans.
- D. Frequent power surges that harm computer equipment.

[105] Gleim #: 9.2.91 -- Source: CMA 690 5-1

(Refers to Fact Pattern #3)

The initiation of the purchase of materials and supplies would be the responsibility of the

- A. Stores Control Department.
- B. Purchasing Department.
- C. Production Department.
- D. Inventory Control Department.

[106] Gleim #: 9.1.3 -- Source: CIA 592 II-16

Internal controls are designed to provide reasonable assurance that

- A. Material errors or fraud will be prevented or detected and corrected within a timely period by employees in the course of performing their assigned duties.
- B. Management's planning, organizing, and directing processes are properly evaluated.
- C. The internal auditing department's guidance and oversight of management's performance is accomplished economically and efficiently.
- D. Management's plans have not been circumvented by worker collusion.

[107] Gleim #: 9.1.15 -- Source: CIA 590 II-5

Which of the following audit committee activities is of the greatest benefit to the internal audit activity (IAA)?

- A. Review and approval of engagement work programs.
- B. Support for appropriate monitoring of the disposition of recommendations made by the internal audit activity.
- C. Assurance that the external auditor will rely on the work of the internal audit activity whenever possible.
- D. Review and endorsement of all internal auditing engagement communications prior to their release.

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[108] Gleim #: 9.1.4 -- Source: CPA 1194 A-29

Which of the following are considered control environment factors?

	<u>Detection Risk</u>	<u>Personnel Policies and Practices</u>
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

[109] Gleim #: 9.4.159 -- Source: CIA 591 I-26

An internal auditor discovered an error in a receivable due from a major stockholder. The receivable's balance accounts for less than 1% of the company's total receivables. Would the auditor be likely to consider the error to be material?

- A. Yes, because a related party is involved.
- B. No, because a small dollar amount is in error.
- C. Yes, if audit risk is low.
- D. No, if there will be further transactions with this stockholder.

[110] Gleim #: 9.4.139 -- Source: CIA 597 I-52

Independence is most likely impaired by an internal auditor's

- A. Reduction of the scope of an engagement due to budget restrictions.
- B. Continuation on an engagement at a division for which (s)he will soon be responsible as the result of a promotion.
- C. Participation on a task force that recommends standards for control of a new distribution system.
- D. Review of a purchasing agent's contract drafts prior to their execution.

[111] Gleim #: 9.4.164 -- Source: CIA 586 II-8

The chief audit executive uncovers a significant fraudulent activity that appears to involve the executive vice president to whom the CAE reports. Which of the following best describes how the CAE should proceed?

- A. Notify regulatory authorities and police.
- B. Conduct an investigation to ascertain whether the executive vice president is involved in the fraudulent activity.
- C. Interview the executive vice president to obtain essential evidence.
- D. Report the facts to the chief executive officer and the audit committee.

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[112] Gleim #: 10.2.47 -- Source: CIA 594 III-29

What is the best course of action to take if a program takes longer than usual to load or execute?

- A. Run antivirus software.
- B. Reboot the system.
- C. Test the system by running a different application program.
- D. Back up the hard disk files to floppies.

[113] Gleim #: 10.1.24 -- Source: CMA 686 5-14

Program documentation is a control designed primarily to ensure that

- A. Programmers have access to the tape library or information on disk files.
- B. Data have been entered and processed.
- C. Programs are kept up to date and perform as intended.
- D. Programs do not make mathematical errors.

[114] Gleim #: 10.1.31 -- Source: CMA 0205 1-33

In entering the billing address for a new client in Emil Company's computerized database, a clerk erroneously entered a nonexistent zip code. As a result, the first month's bill mailed to the new client was returned to Emil Company. Which one of the following would **most** likely have led to discovery of the error at the time of entry into Emil Company's computerized database?

- A. Parity test.
- B. Limit test.
- C. Record count test.
- D. Validity test.

[115] Gleim #: 9.2.112 -- Source: CMA 1288 3-26

In a well-designed internal control structure in which the cashier receives remittances from the mail room, the cashier should not

- A. Prepare the bank deposit slip.
- B. Endorse the checks.
- C. Post the receipts to the accounts receivable subsidiary ledger cards.
- D. Deposit remittances daily at a local bank.

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[116] Gleim #: 9.4.150 -- Source: Publisher

Internal auditors may provide consulting services that add value and improve an organization's operations. The performance of these services

- A. Should be consistent with the internal audit activity's empowerment reflected in the charter.
- B. Precludes generation of assurance from a consulting engagement.
- C. Imposes no responsibility to communicate information other than to the engagement client.
- D. Impairs internal auditors' objectivity with respect to an assurance service involving the same engagement client.

[117] Gleim #: 10.2.45 -- Source: CIA 1196 III-41

Which of the following operating procedures increases an organization's exposure to computer viruses?

- A. Frequent backup of files.
- B. Installing original copies of purchased software on hard disk drives.
- C. Encryption of data files.
- D. Downloading public-domain software from websites.

[118] Gleim #: 10.1.27 -- Source: CMA 1294 4-15

The most critical aspect of the separation of duties within a mainframe information systems environment is between

- A. Programmers and project leaders.
- B. Programmers and systems analysts.
- C. Programmers and computer operators.
- D. Programmers and users.

[119] Gleim #: 9.2.43 -- Source: CIA 592 II-15

A utility company with a large investment in repair vehicles would most likely implement which internal control to reduce the risk of vehicle theft or loss?

- A. Physically inventory vehicles and reconcile the results with the accounting records.
- B. Review insurance coverage for adequacy.
- C. Systematically account for all repair work orders.
- D. Maintain vehicles in a secured location with release and return subject to approval by a custodian.

[120] Gleim #: 9.4.129 -- Source: CIA 1193 I-1

Internal auditing is a dynamic profession. Which of the following best describes the scope of internal auditing as it has developed to date?

- A. Internal auditing involves evaluating the effectiveness and efficiency with which resources are employed.
- B. Internal auditing involves evaluating compliance with laws, regulations, and contracts.
- C. Internal auditing has evolved to verifying the existence of assets and reviewing the means of safeguarding assets.
- D. Internal auditing has evolved to evaluating all risk management, control, and governance systems.

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[121] Gleim #: 10.2.52 -- Source: Publisher

An organization's computer system should have an intrusion detection system (IDS) if it has external connections. An IDS

- A. Uses only knowledge-based detection.
- B. Uses only behavior-based detection.
- C. Must monitor every call on the system as it occurs.
- D. May examine only packets with certain signatures.

[122] Gleim #: 10.1.33 -- Source: CMA 1289 5-10

Some of the more important controls that relate to automated accounting information systems are validity checks, limit checks, field checks, and sign tests. These are classified as

- A. Input validation routines.
- B. Control total validation routines.
- C. Data access validation routines.
- D. Hash totaling.

[123] Gleim #: 9.3.121 -- Source: CPA 1183 L-45

Which of the following corporations are subject to the accounting requirements of the Foreign Corrupt Practices Act (FCPA)?

- A. All corporations whose securities are registered pursuant to the Securities Exchange Act of 1934.
- B. All domestic corporations engaged in international trade.
- C. All corporations engaged in interstate commerce.
- D. All corporations that have made a public offering under the Securities Act of 1933.

[124] Gleim #: 9.4.158 -- Source: CIA 597 1-9

After noting some red flags, an internal auditor has an increased awareness that fraud may be present. Which of the following best describes the internal auditor's responsibility?

- A. Report the matter to the audit committee and request funding for outside service providers to help investigate the possible fraud.
- B. Consult with external legal counsel to determine the course of action to be taken, including the approval of the proposed engagement work program to make sure it is acceptable on legal grounds.
- C. Expand activities to determine whether an investigation is warranted.
- D. Report the possibility of fraud to senior management and the board and ask them how they would like to proceed.

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[125] Gleim #: 10.1.13 -- Source: Publisher

Which of the following is an example of an input control?

- A. Hash totals.
- B. Dual write routines.
- C. Error listings.
- D. Run-to-run control totals.

[126] Gleim #: 10.1.2 -- Source: CMA 695 4-22

In the organization of the information systems function, the most important separation of duties is

- A. Not allowing the data librarian to assist in data processing operations.
- B. Using different programming personnel to maintain utility programs from those who maintain the application programs.
- C. Having a separate information officer at the top level of the organization outside of the accounting function.
- D. Assuring that those responsible for programming the system do not have access to data processing operations.

[127] Gleim #: 10.2.48 -- Source: CIA 1190 III-19

Six months after a disgruntled systems programmer was fired and passwords disabled, the company's largest server was brought to a halt when it suddenly erased all of its own files and software. The most likely way the programmer accomplished this was by

- A. Planting a computer virus through the use of telephone access.
- B. Having an accomplice in the computer center.
- C. Implanting a virus in the operating system and executing it via a back door.
- D. Returning to the computer center after 6 months.

[128] Gleim #: 9.2.33 -- Source: Publisher

In a retail cash sales environment, which of the following controls is often absent?

- A. Supervision.
- B. Segregation of functions.
- C. Asset access limited to authorized personnel.
- D. Competent personnel.

[129] Gleim #: 9.4.173 -- Source: CIA 592 II-1

A determination of cost savings is most likely to be an objective of a(n)

- A. Financial engagement.
- B. Program-results engagement.
- C. Compliance engagement.
- D. Operational engagement.

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[130] Gleim #: 9.1.8 -- Source: CIA 580 IV-21

A corporate director commits a breach of duty if

- A. A contract is awarded by the company to an organization owned by the director.
- B. The director's exercise of care and skill is minimal.
- C. An interest in property is acquired by the director without prior approval of the board.
- D. The director's action, prompted by confidential information, results in an abuse of corporate opportunity.

[131] Gleim #: 9.4.169 -- Source: CIA 1184 I-14

The primary difference between operational engagements and financial engagements is that, in the former, the internal auditors

- A. Start with the financial statements of the client entity and work backward to the basic processes involved in producing them.
- B. Are not concerned with whether the client entity is generating information in compliance with financial accounting standards.
- C. Can use analytical skills and tools that are not necessary in financial engagements.
- D. Are seeking to help management use resources in the most effective manner possible.

[132] Gleim #: 9.2.60 -- Source: CIA 1186 I-7

An auditor noted that the accounts receivable department is separate from other accounting activities. Credit is approved by a separate credit department. Control accounts and subsidiary ledgers are balanced monthly. Similarly, accounts are aged monthly. The accounts receivable manager writes off delinquent accounts after 1 year, or sooner if a bankruptcy or other unusual circumstances are involved. Credit memoranda are prenumbered and must correlate with receiving reports. Which of the following areas could be viewed as an internal control weakness of the above organization?

- A. Write-offs of delinquent accounts.
- B. Handling of credit memos.
- C. Monthly aging of receivables.
- D. Credit approvals.

[133] Gleim #: 9.3.118 -- Source: CPA, adapted

The Sarbanes-Oxley Act has strengthened auditor independence by requiring that management

- A. Engage auditors to report in accordance with the Foreign Corrupt Practices Act.
- B. Select auditors through audit committees.
- C. Hire a different CPA firm from the one that performs the audit to perform the company's tax work.
- D. Report the nature of disagreements with former auditors.

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[134] Gleim #: 9.2.82 -- Source: CIA 595 I-14

(Refers to Fact Pattern #2)

Requests for purchases beyond those initially budgeted by the marketing manager must be approved by the marketing manager. Which of the following statements regarding this control procedure is correct? The procedure

- I. Should provide for the most efficient allocation of scarce organizational resources
 - II. Is a detective control procedure
 - III. Is not necessary because each product manager is evaluated on profit generated, thus this control is redundant
-
- A. I, II, and III.
 - B. I only.
 - C. III only.
 - D. II and III.

[135] Gleim #: 9.4.155 -- Source: CIA 592 I-18

Which method of evaluating internal controls during the preliminary review provides the auditor with the best visual grasp of a system and a means for analyzing complex operations?

- A. A flowcharting approach.
- B. A questionnaire approach.
- C. A matrix approach.
- D. A detailed narrative approach.

[136] Gleim #: 9.4.153 -- Source: Publisher

Which type of engagement attempts to measure the accomplishment and relative success of the undertaking?

- A. Compliance engagement.
- B. Program-results engagement.
- C. Process engagement.
- D. Privacy engagement.

[137] Gleim #: 9.4.148 -- Source: CIA 594 III-90

In recent years, which two factors have changed the relationship between internal auditors and external auditors so that internal auditors are partners rather than subordinates?

- A. The increasing liability of external auditors and the increasing professionalism of internal auditors.
- B. The increasing professionalism of internal auditors and the evolving economics of external auditing.
- C. The use of computerized accounting systems and the evolving economics of external auditing.
- D. The globalization of audit entities and the increased reliance on computerized accounting systems.

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[138] Gleim #: 9.4.141 -- Source: Publisher

The chief audit executive's responsibility for assessing and reporting on control processes includes

- A. Overseeing the establishment of internal control processes.
- B. Arriving at a single assessment based solely on the work of the internal audit activity.
- C. Communicating to senior management and the audit committee an annual judgment about internal control.
- D. Maintaining the organization's governance processes.

[139] Gleim #: 9.4.154 -- Source: Publisher

Which of the following issues need not be addressed by internal auditors when performing a privacy engagement?

- A. Compliance with governmental statutory and regulatory mandates.
- B. Whether the benefits of the security arrangements exceed the costs.
- C. The ethical imperative for management to gather accurate private information.
- D. Documentation of compliance with privacy and other legal requirements.

[140] Gleim #: 10.1.4 -- Source: CMA 693 4-6

Data processed by a computer system are usually transferred to some form of output medium for storage. However, the presence of computerized output does not, in and of itself, assure the output's accuracy, completeness, or authenticity. For this assurance, various controls are needed. The major types of controls for this area include

- A. Tape and disk output controls and printed output controls.
- B. Input controls, tape and disk output controls, and printed output controls.
- C. Transaction controls, general controls, and printout controls.
- D. Activity listings, echo checks, and pre-numbered forms.

[141] Gleim #: 9.2.67 -- Source: CIA 591 I-23

A means of ensuring that payroll checks are drawn for properly authorized amounts is to

- A. Require supervisory approval of employee time cards.
- B. Require that undelivered checks be returned to the cashier.
- C. Witness the distribution of payroll checks.
- D. Conduct periodic floor verification of employees on the payroll.

[142] Gleim #: 9.1.11 -- Source: CIA 1187 I-4

Which of the following is an appropriate responsibility of an audit committee?

- A. Reviewing the engagement records of the public accounting firm to determine the firm's competence.
- B. Performing a review of the procurement function of the organization.
- C. Reviewing the internal audit activity's (IAA's) engagement work schedule submitted by the chief audit executive (CAE).
- D. Recommending the assignment of specific internal auditing staff members for specific engagements.

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[143] Gleim #: 10.1.8 -- Source: CMA 1287 5-16

An employee in the receiving department keyed in a shipment from a remote terminal and inadvertently omitted the purchase order number. The best systems control to detect this error would be

- A. Reasonableness test.
- B. Batch total.
- C. Completeness test.
- D. Sequence check.

[144] Gleim #: 10.1.34 -- Source: CMA 1284 5-27

An advantage of having a computer maintain an automated error log in conjunction with computer edit programs is that

- A. Reports can be developed that summarize the errors by type, cause, and person responsible.
- B. The audit trail is maintained.
- C. Less manual work is required to determine how to correct errors.
- D. Better editing techniques will result.

[145] Gleim #: 9.1.14 -- Source: CIA 1191 II-4

Which of the following is not an appropriate member of an audit committee?

- A. The vice president of the local bank used by the organization.
- B. A retired executive of a firm that had been associated with the organization.
- C. An academic specializing in business administration.
- D. The organization's vice president of operations.

[146] Gleim #: 9.2.111 -- Source: CMA 690 3-27

One of the steps in assessing control risk in a computerized information control system is identifying necessary controls to prevent data from being lost, added, duplicated, or altered during processing. An example of this type of control is the

- A. Use of control totals, limit and reasonableness checks, and sequence tests.
- B. Authorization and approval of data in user departments and screening of data by data control groups.
- C. Review of data output by data control groups.
- D. Use of external and internal file labels.

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[147] Gleim #: 9.4.178 -- Source: CIA 589 II-41

The internal auditing department has just completed an audit report that outlines several deficiencies found in the company's product distribution channels. Which one of the following persons should receive a copy of the audit report to ensure maximum benefits for the company?

- A. The advertising manager.
- B. The marketing director.
- C. The treasurer.
- D. The sales representative.

[148] Gleim #: 10.2.62 -- Source: CMA 1287 5-11

(Refers to Fact Pattern #4)

What is the appropriate description that should be placed in symbol E?

- A. Cash projection file.
- B. Accounts receivable master file.
- C. Remittance advice master file.
- D. Bad debts master file.

[149] Gleim #: 9.2.80 -- Source: CIA 1194 I-45

A retailer of high-priced durable goods operates a catalog-ordering division that accepts customer orders by telephone. The retailer runs frequent price promotions. During these times, the telephone operators enter the promotional prices. The risk of this practice is that

- A. Operators could give competitors notice of the promotional prices.
- B. Customers could systematically be charged lower prices.
- C. Frequent price changes could overload the order entry system.
- D. Operators could collude with outsiders for unauthorized prices.

[150] Gleim #: 10.1.1 -- Source: Publisher

Which of the following is not a threat to information systems?

- A. Data theft.
- B. Trojan horses.
- C. Serendipity.
- D. Worms.

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[151] Gleim #: 9.4.152 -- Source: Publisher

Which type of engagement focuses on operations and how effectively and efficiently the organizational units affected will cooperate?

- A. Process engagement.
- B. Compliance engagement.
- C. Program-results engagement.
- D. Privacy engagement.

[152] Gleim #: 9.4.124 -- Source: CMA 682 3-17

From a modern internal auditing perspective, which one of the following statements represents the most important benefit of an internal auditing activity (IAA) to management?

- A. Assurance that the organization is complying with legal requirements.
- B. Assurance that fraudulent activities will be detected.
- C. Assurance that published financial statements are correct.
- D. Assurance that there is reasonable control over day-to-day operations.

[153] Gleim #: 9.1.19 -- Source: CIA 1193 II-8

Corporate directors, management, external auditors, and internal auditors all play important roles in creating a proper control environment. Top management is primarily responsible for

- A. Reviewing the reliability and integrity of financial information and the means used to collect and report such information.
- B. Establishing a proper environment and specifying an overall internal control structure.
- C. Ensuring that external and internal auditors adequately monitor the control environment.
- D. Implementing and monitoring controls designed by the board of directors.

[154] Gleim #: 9.2.38 -- Source: CMA 1288 3-22

Internal control should follow certain basic principles to achieve its objectives. One of these principles is the segregation of functions. Which one of the following examples does not violate the principle of segregation of functions?

- A. The sales manager has the responsibility to approve credit and the authority to write off accounts.
- B. The treasurer has the authority to sign checks but gives the signature block to the assistant treasurer to run the check-signing machine.
- C. The department time clerk is given the undistributed payroll checks to mail to absent employees.
- D. The warehouse clerk, who has the custodial responsibility over inventory in the warehouse, may authorize disposal of damaged goods.

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[155] Gleim #: 10.2.60 -- Source: CMA 1287 5-9

(Refers to Fact Pattern #4)

The next action regarding the customer remittance advices (refer to symbol C) is to

- A. Discard them immediately.
- B. File them daily by batch number.
- C. Forward them to the treasurer to compare with the monthly bank statement.
- D. Forward them to the internal audit department for internal review.

[156] Gleim #: 9.2.56 -- Source: CIA 1188 II-24

One payroll audit objective is to determine if there is proper segregation of duties. Which of the following activities is incompatible?

- A. Signing and distributing payroll checks.
- B. Preparing the payroll and filing payroll tax forms.
- C. Hiring employees and authorizing changes to pay rates.
- D. Preparing attendance data and preparing the payroll.

[157] Gleim #: 9.2.97 -- Source: CIA 582 I-4

Effective internal control

- A. Cannot be circumvented by management.
- B. Reduces the need for management to review exception reports on a day-to-day basis.
- C. Eliminates risk and potential loss to the organization.
- D. Is unaffected by changing circumstances and conditions encountered by the organization.

[158] Gleim #: 9.2.90 -- Source: CMA 690 5-11

A bill of lading is a document that

- A. Is sent with the goods giving a listing of the quantities of items included in the shipment.
- B. Reduces a customer's account for goods returned to the seller.
- C. Indicates the amount the customer owes by listing the quantities shipped, unit price, and total price of goods shipped.
- D. Is used to transfer responsibility for goods between the seller of goods and a common carrier.

[159] Gleim #: 9.4.167 -- Source: CIA 594 II-20

An internal auditor is interviewing three individuals, one of whom is suspected of committing a fraud. Which of the following is the least effective interviewing approach?

- A. Attempt to get the suspect to confess.
- B. Ask each individual to prepare a written statement explaining his or her actions.
- C. Take the role of one seeking the truth.
- D. Listen carefully to what the interviewee has to say.

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[160] Gleim #: 10.2.39 -- Source: CIA 1196 III-77

The encryption technique that requires two keys, a public key that is available to anyone for encrypting messages and a private key that is known only to the recipient for decrypting messages, is

- A. Rivest, Shamir, and Adelman (RSA).
- B. Modulator-demodulator.
- C. A cypher lock.
- D. Data encryption standard (DES).

[161] Gleim #: 9.2.45 -- Source: CIA 1194 I-26

Management can best strengthen internal control over the custody of inventory stored in an off-site warehouse by implementing

- A. Reconciliations of transfer slips to/from the warehouse with inventory records.
- B. Regular confirmation of the amount on hand with the custodian of the warehouse.
- C. Increases in insurance coverage.
- D. Regular reconciliation of physical inventories to accounting records.

[162] Gleim #: 9.1.13 -- Source: CIA 591 II-3

Which of the following actions is an appropriate response by organizations wishing to improve the public's perception of their financial reporting?

- A. Keeping external and internal auditing work separated to maintain independence.
- B. Viewing internal auditing as a transient profession -- a stepping stone to managerial positions.
- C. Requiring internal auditors to report all significant observations of illegal activity to the chief executive officer.
- D. Increased adoption of audit committees composed of outside directors.

[163] Gleim #: 9.2.77 -- Source: CMA 1288 3-21

According to SAS 55 (AU 319), *Consideration of the Internal Control Structure in a Financial Statement Audit*, an entity's internal control structure (ICS) consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. Only some of these objectives, policies, and procedures are relevant to a financial statement audit. Which one of the following would most likely be considered in such an audit?

- A. Maintenance of control over unused checks.
- B. Maintenance of statistical production analyses.
- C. Timely reporting and review of quality control results.
- D. Marketing analysis of sales generated by advertising projects.

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[164] Gleim #: 10.2.42 -- Source: CIA 591 III-24

The best preventive measure against a computer virus is to

- A. Compare software in use with authorized versions of the software.
- B. Execute virus exterminator programs periodically on the system.
- C. Prepare and test a plan for recovering from the incidence of a virus.
- D. Allow only authorized software from known sources to be used on the system.

[165] Gleim #: 9.2.99 -- Source: Publisher

Internal controls may be preventive, detective, or corrective. Which of the following is preventive?

- A. Requiring two persons to open mail.
- B. Reconciling the accounts receivable subsidiary file with the control account.
- C. Using batch totals.
- D. Preparing bank reconciliations.

[166] Gleim #: 9.4.177 -- Source: CIA 1187 I-44

Which of the following individuals normally would not receive an internal auditing report related to a review of the purchasing cycle?

- A. The chair of the board of directors.
- B. The independent external auditor.
- C. The general auditor.
- D. The director of purchasing.

[167] Gleim #: 9.4.160 -- Source: CIA 1192 I-3

In the performance of an internal audit, audit risk is best defined as the risk that an auditor

- A. May fail to detect a significant error or weakness during an examination.
- B. Might not select documents that are in error as part of the examination.
- C. May not have the expertise to adequately audit a specific activity.
- D. May not be able to properly evaluate an activity because of its poor internal accounting controls.

[168] Gleim #: 9.2.42 -- Source: CMA 689 3-17

Which one of the following situations represents a strength of internal control for purchasing and accounts payable?

- A. Invoices are approved for payment by the purchasing department.
- B. Prenumbered receiving reports are issued randomly.
- C. Vendors' invoices are matched against purchase orders and receiving reports before a liability is recorded.
- D. Unmatched receiving reports are reviewed on an annual basis.

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[169] Gleim #: 9.1.9 -- Source: CIA 1196 I-26

Audit committees have been identified as a major factor in promoting the independence of both internal and external auditors. Which of the following is the most important limitation on the effectiveness of audit committees?

- A. Audit committees may be composed of independent directors. However, those directors may have close personal and professional friendships with management.
- B. Audit committee members are compensated by the organization and thus favor an owner's view.
- C. Audit committee members do not normally have degrees in the accounting or auditing fields.
- D. Audit committees devote most of their efforts to external audit concerns and do not pay much attention to the internal audit activity and the overall control environment.

[170] Gleim #: 9.3.123 -- Source: CPA 1182 L-30

Under the Foreign Corrupt Practices Act (FCPA), an action may be brought that seeks

- A. Treble damages by a private party.
- B. Injunctive relief by a private party.
- C. Damages and injunctive relief by the Securities and Exchange Commission.
- D. Criminal sanctions against both the corporation and its officers by the Department of Justice.

[171] Gleim #: 10.2.68 -- Source: CMA 0205 1-32

Which one of the following would **most** compromise the use of the grandfather-father-son principle of file retention as protection against loss or damage of master files?

- A. Storing of all files in one location.
- B. Failure to encrypt data.
- C. Use of magnetic tape.
- D. Inadequate ventilation.

[172] Gleim #: 9.1.17 -- Source: CIA 1189 II-8

The audit committee strengthens the control processes of an organization by

- A. Assigning the internal audit activity responsibility for interaction with governmental agencies.
- B. Approving internal audit activity policies.
- C. Using the chief audit executive as a major resource in selecting the external auditors.
- D. Following up on recommendations made by the chief audit executive.

[173] Gleim #: 9.2.63 -- Source: CIA 1192 II-17

The cash receipts function should be separated from the related record keeping in an organization to

- A. Minimize undetected misappropriations of cash receipts.
- B. Physically safeguard the cash receipts.
- C. Establish accountability when the cash is first received.
- D. Prevent paying cash disbursements from cash receipts.

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[174] Gleim #: 9.4.176 -- Source: CIA 593 I-36

An engagement performed at an organization's payroll department has revealed various control weaknesses. These weaknesses along with recommendations for corrective actions were addressed in the final engagement communication. This communication should be most useful to the organization's

- A. Treasurer.
- B. President.
- C. Audit committee of the board of directors.
- D. Payroll manager.

[175] Gleim #: 9.4.171 -- Source: CIA 1191 I-10

During an operational engagement, the internal auditors compare the current staffing of a department with established industry standards to

- A. Determine whether the department has complied with all laws and regulations governing its personnel.
- B. Evaluate the adequacy of the established internal controls for the department.
- C. Assess the current performance of the department and make appropriate recommendations for improvement.
- D. Identify bogus employees on the department's payroll.

[176] Gleim #: 9.3.114 -- Source: Publisher

What law prohibits U.S. companies from paying bribes to foreign officials for the purpose of obtaining or retaining business?

- A. Robinson-Patman Act.
- B. Federal Ethical Standards Act.
- C. North American Free Trade Agreement.
- D. Foreign Corrupt Practices Act.

[177] Gleim #: 10.2.57 -- Source: CMA 696 4-14

A critical aspect of a disaster recovery plan is to be able to regain operational capability as soon as possible. In order to accomplish this, an organization can have an arrangement with its computer hardware vendor to have a fully operational facility available that is configured to the user's specific needs. This is best known as a(n)

- A. Hot site.
- B. Cold site.
- C. Parallel system.
- D. Uninterruptible power system.

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[178] Gleim #: 9.2.108 -- Source: CIA 1190 II-9

Which of the following controls would most likely minimize defects in finished goods because of poor quality raw materials?

- A. Timely follow-up on unfavorable usage variances.
- B. Proper handling of work-in-process inventory to prevent damage.
- C. Implementation of specifications for purchases.
- D. Determination of spoilage at the end of the manufacturing process.

[179] Gleim #: 9.2.78 -- Source: CIA 1195 I-67

Auditors regularly evaluate controls. Which of the following best describes the concept of control as recognized by internal auditors?

- A. Control procedures should be designed from the “bottom up” to ensure attention to detail.
- B. Control represents specific procedures that accountants and auditors design to ensure the correctness of processing.
- C. Management regularly discharges personnel who do not perform up to expectations.
- D. Management takes action to enhance the likelihood that established goals and objectives will be achieved.

[180] Gleim #: 9.2.29 -- Source: Publisher

The frequency of the comparison of recorded accountability with assets (for the purpose of safeguarding assets) should be determined by

- A. The cost of the comparison and whether the susceptibility to loss results from errors or fraud.
- B. The nature and amount of the asset and the cost of making the comparison.
- C. The amount of assets independent of the cost of the comparison.
- D. The auditor in consultation with client management.

[181] Gleim #: 9.2.104 -- Source: CIA 1189 I-10

Which of the following describes the most effective preventive control to ensure proper handling of cash receipt transactions?

- A. Predetermined totals (hash totals) of cash receipts are used to control posting routines.
- B. The employee who receives customer mail receipts prepares the daily bank deposit, which is then deposited by another employee.
- C. Bank reconciliations are prepared by an employee not involved with cash collections and then are reviewed by a supervisor.
- D. One employee issues a prenumbered receipt for all cash collections; another employee reconciles the daily total of prenumbered receipts to the bank deposits.

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[182] Gleim #: 9.4.174 -- Source: CIA 590 I-2

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

- A. Evaluate the accuracy of the subsidiary's internal financial reports.
- B. Assess the performance of the subsidiary and indicate where additional audit work may be needed.
- C. Determine if the subsidiary is complying with corporate procedures regarding inventory levels.
- D. Test the subsidiary's controls designed to safeguard assets.

[183] Gleim #: 10.1.10 -- Source: CMA 695 4-30

In auditing computer-based systems, the integrated test facility (ITF)

- A. Is a set of specialized software routines that are designed to perform specialized audit tests and store audit evidence.
- B. Allows the auditor to assemble test transactions and run them through the computer system to test the integrity of controls on a sample data base.
- C. Uses an audit log to record transactions and data having special audit significance during regular processing runs.
- D. Is a concurrent audit technique that establishes a special set of dummy master files and enters transactions to test the programs using the dummy files during regular processing runs.

[184] Gleim #: 9.4.180 -- Source: CMA 0205 1-30

Of the following, the **primary** objective of compliance testing is to determine whether

- A. Procedures are regularly updated.
- B. Collusion is taking place.
- C. Financial statement line items are properly stated.
- D. Controls are functioning as planned.

[185] Gleim #: 9.4.172 -- Source: CIA 1191 I-17

An operational engagement relating to the production function includes a procedure to compare actual costs with standard costs. The purpose of this engagement procedure is to

- A. Assess the reasonableness of standard costs.
- B. Assist management in its evaluation of effectiveness and efficiency.
- C. Measure the effectiveness of the standard cost system.
- D. Determine the accuracy of the system used to record actual costs.

[186] Gleim #: 9.2.27 -- Source: CPA 1194 A-26

Proper segregation of duties reduces the opportunities for persons to be in positions to both

- A. Establish internal control and authorize transactions.
- B. Record cash receipts and cash disbursements.
- C. Perpetrate and conceal errors or fraud.
- D. Journalize entries and prepare financial statements.

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[187] Gleim #: 9.2.76 -- Source: CMA 1286 3-29

One characteristic of an effective internal control structure is the proper segregation of duties. The combination of responsibilities that would not be considered a violation of segregation of functional responsibilities is

- A. Approval of time cards and preparation of paychecks.
- B. Timekeeping and preparation of payroll journal entries.
- C. Signing of paychecks and custody of blank payroll checks.
- D. Preparation of paychecks and check distribution.

[188] Gleim #: 10.2.59 -- Source: CMA 1287 5-8

(Refers to Fact Pattern #4)

What is the appropriate description that should be placed in symbol B?

- A. Error correction.
- B. Collation of remittance advices.
- C. Batch processing.
- D. Keying and verifying.

[189] Gleim #: 10.1.26 -- Source: CMA 687 5-3

Whether or not a real-time program contains adequate controls is most effectively determined by the use of

- A. A tracing routine.
- B. A tagging routine.
- C. An integrated test facility.
- D. Audit software.

[190] Gleim #: 9.2.113 -- Source: CMA 1289 5-1

To control purchasing and accounts payable, an information system must include certain source documents. For a manufacturing organization, these documents should include

- A. Purchase requisitions, purchase orders, inventory reports of goods needed, and vendor invoices.
- B. Receiving reports and vendor invoices.
- C. Purchase orders, receiving reports, and vendor invoices.
- D. Purchase requisitions, purchase orders, receiving reports, and vendor invoices.

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[191] Gleim #: 9.2.85 -- Source: CMA 693 4-4

Accounting controls are concerned with the safeguarding of assets and the reliability of financial records. Consequently, these controls are designed to provide reasonable assurance that all of the following take place except

- A. Comparing recorded assets with existing assets at periodic intervals and taking appropriate action with respect to differences.
- B. Permitting access to assets in accordance with management's authorization.
- C. Executing transactions in accordance with management's general or specific authorization.
- D. Compliance with methods and procedures ensuring operational efficiency and adherence to managerial policies.

[192] Gleim #: 9.4.127 -- Source: CIA 595 I-60

A charter is one of the more important factors positively affecting the internal audit activity's independence. Which of the following is least likely to be part of the charter?

- A. Access to records within the organization.
- B. The scope of internal audit activities.
- C. The length of tenure of the chief audit executive.
- D. Access to personnel within the organization.

[193] Gleim #: 9.2.72 -- Source: CMA 1294 2-30

There are three components of audit risk: inherent risk, control risk, and detection risk. Inherent risk is

- A. The risk that the auditor will not detect a material misstatement that exists in an assertion.
- B. The risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated.
- C. The susceptibility of an assertion to a material misstatement, assuming that there are no related internal control structure policies or procedures.
- D. The risk that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by the entity's internal control structure policies or procedures.

[194] Gleim #: 9.2.28 -- Source: CMA 1283 3-14

A proper segregation of duties requires that an individual

- A. Authorizing a transaction maintain custody of the asset that resulted from the transaction.
- B. Recording a transaction not compare the accounting record of the asset with the asset itself.
- C. Authorizing a transaction records it.
- D. Maintaining custody of an asset be entitled to access the accounting records for the asset.

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[195] Gleim #: 10.1.11 -- Source: CIA 1196 III-47

A company makes snapshot copies of some often-used data files and makes them available on the server. Authorized users can then download data subsets into spreadsheet programs. A risk associated with this means of providing data access is that data

- A. Fragments may lack integrity.
- B. Replicas may not be synchronized.
- C. Transactions may be committed prematurely.
- D. Currency may not be maintained.

[196] Gleim #: 10.1.18 -- Source: CMA 1284 5-28

The use of a generalized audit software package

- A. Relieves an auditor of the typical tasks of investigating exceptions, verifying sources of information, and evaluating reports.
- B. Overcomes the need for an auditor to learn much about computers.
- C. Is a major aid in retrieving information from computerized files.
- D. Is a form of auditing around the computer.

[197] Gleim #: 9.2.30 -- Source: Publisher

Which of the following questions would be inappropriate on an internal control questionnaire concerning purchase transactions?

- A. Are an approved purchase requisition and a signed purchase order required for each purchase?
- B. Are all goods received in a centralized receiving department and counted, inspected, and compared with purchase orders on receipt?
- C. Are prenumbered purchase orders and receiving reports used and accounted for?
- D. Are intact cash receipts deposited daily in the bank?

[198] Gleim #: 10.1.22 -- Source: CMA 686 5-13

An example of an internal check is

- A. Recalculating an amount to assure its accuracy.
- B. Monitoring the work of programmers.
- C. Making sure that output is distributed to the proper people.
- D. Collecting accurate statistics of historical transactions while gathering data.

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[199] Gleim #: 9.3.116 -- Source: Publisher

Firms subject to the reporting requirements of the Securities Exchange Act of 1934 are required by the Foreign Corrupt Practices Act of 1977 to maintain satisfactory internal control. The role of the independent auditor relative to this Act is to

- A. Report clients with unsatisfactory internal control to the SEC.
- B. Provide assurances to users as part of the traditional audit attest function that the client is in compliance with the present legislation.
- C. Express an opinion on the sufficiency of the client's internal control to meet the requirements of the Act.
- D. Attest to the financial statements.

[200] Gleim #: 9.1.23 -- Source: Publisher 2009

The PCAOB's Auditing Standard (AS) 5 focuses on internal controls in their relation to the fair presentation of financial statements. One requirement of AS 5 is that

- A. A publicly-traded firm must establish and maintain a system of internal accounting control.
- B. External auditors must express an opinion on a firm's internal control at the same time as the opinion on the financial statements.
- C. Auditors must quantify control risk in numeric terms.
- D. Publicly-traded firms must address each of the five interrelated components of internal control.

[201] Gleim #: 9.4.135 -- Source: CMA 1284 3-22

Which of the following is **most** likely to be regarded as a strength in internal control in a traditional external audit?

- A. The performance of financial audits by the internal audit activity.
- B. The existence of a preventive maintenance program.
- C. The routine supervisory review of production planning.
- D. The performance of operational engagements by internal auditors.

[202] Gleim #: 9.2.50 -- Source: Publisher

Audit risk consists of inherent risk, control risk, and detection risk. Which of the following statements is true?

- A. The existing levels of inherent risk, control risk, and detection risk can be changed at the discretion of the auditor.
- B. Detection risk is a function of the efficiency of an auditing procedure.
- C. Cash is more susceptible to theft than an inventory of coal because it has a greater inherent risk.
- D. The risk that material misstatement will not be prevented or detected on a timely basis by internal control can be reduced to zero by effective controls.

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[203] Gleim #: 10.2.53 -- Source: CIA 595 I-5

An auditor reviews and adapts a systems flowchart to understand the flow of information in the processing of cash receipts. The flowchart

- A. Depicts specific control procedures used, such as edit tests and batch control reconciliations.
- B. Is a good guide to potential segregation of duties.
- C. Is generally kept up to date for systems changes.
- D. Depicts only computer processing, not manual processing.

[204] Gleim #: 9.4.162 -- Source: CIA 1194 I-10

An internal auditor who suspects fraud should

- A. Interview those who have been involved in the control of assets.
- B. Recommend whatever investigation is considered necessary under the circumstances.
- C. Determine that a loss has been incurred.
- D. Identify the employees who could be implicated in the case.

[205] Gleim #: 10.1.30 -- Source: CMA 685 5-26

A company employing an online computer system has terminals located in all operating departments for inquiry and updating purposes. Many of the company's employees have access to and are required to use the terminals. A control the company would incorporate to prevent an employee from making an unauthorized change to computer records unrelated to that employee's job would be to

- A. Establish user codes and passwords.
- B. Apply a compatibility test to transactions or inquiries entered by the user.
- C. Use validity checks.
- D. Restrict the physical access to terminals.

[206] Gleim #: 9.1.5 -- Source: Publisher

Basic to a proper control environment are the quality and integrity of personnel who must perform the prescribed procedures. Which is not a factor in providing for competent personnel?

- A. Training programs.
- B. Segregation of duties.
- C. Performance evaluations.
- D. Hiring practices.

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[207] Gleim #: 9.1.2 -- Source: CMA 1288 3-25

The primary responsibility for establishing and maintaining internal control rests with

- A. The controller.
- B. The external auditor.
- C. The treasurer.
- D. Management.

[208] Gleim #: 9.2.62 -- Source: CIA 1188 I-20

Which of the following activities performed by a payroll clerk is a control weakness rather than a control strength?

- A. Forwards the payroll register to the chief accountant for approval.
- B. Draws the paychecks on a separate payroll checking account.
- C. Has custody of the check signature stamp machine.
- D. Prepares the payroll register.

[209] Gleim #: 10.2.65 -- Source: CMA 0205 1-31

A company's management is concerned about computer data eavesdropping and wants to maintain the confidentiality of its information as it is transmitted. The company should utilize

- A. Message acknowledgment procedures.
- B. Data encryption.
- C. Password codes.
- D. Dial back systems.

[210] Gleim #: 9.2.35 -- Source: CMA 690 5-8

Organizational independence in the processing of payroll is achieved by functional separations that are built into the system. Which one of the following functional separations is not required for internal control purposes?

- A. Separation of personnel function from payroll preparation.
- B. Separation of payroll preparation and maintenance of year-to-date records.
- C. Separation of payroll preparation and paycheck distribution.
- D. Separation of timekeeping from payroll preparation.

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[211] Gleim #: 9.2.100 -- Source: CIA 1187 I-10

The internal auditor recognizes that certain limitations are inherent in any internal control system. Which one of the following scenarios is the result of an inherent limitation of internal control?

- A. An employee, who is unable to read, is assigned custody of the firm's computer tape library and run manuals that are used during the third shift.
- B. The comptroller both makes and records cash deposits.
- C. A security guard allows one of the warehouse employees to remove company assets from the premises without authorization.
- D. The firm sells to customers on account, without credit approval.

[212] Gleim #: 10.2.43 -- Source: CIA 595 III-67

Managers at a consumer products company purchased personal computer software from only recognized vendors, and prohibited employees from installing nonauthorized software on their personal computers. To minimize the likelihood of computer viruses infecting any of its systems, the company should also

- A. Restore infected systems with authorized versions.
- B. Test all new software on a stand-alone personal computer.
- C. Recompile infected programs from source code backups.
- D. Institute program change control procedures.

[213] Gleim #: 9.4.157 -- Source: CIA 592 I-23

An internal auditor would trace copies of sales invoices to shipping documents in order to determine that

- A. The subsidiary accounts receivable ledger was updated.
- B. Sales that are billed were also shipped.
- C. Shipments to customers were also recorded as receivables.
- D. Customer shipments were billed.

[214] Gleim #: 9.4.146 -- Source: Publisher

Which of the following is most likely to be an element of an effective regulatory compliance program?

- A. The internal audit activity should be assigned overall responsibility for overseeing the program.
- B. The organization should obtain as much information as possible when performing background checks on employees.
- C. The organization should use monitoring and auditing systems reasonably designed to detect criminal conduct.
- D. The program is communicated to employees in a video format on a one-time basis.

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[215] Gleim #: 9.2.53 -- Source: CMA 1283 3-11

When an organization has strong internal control, management can expect various benefits. The benefit least likely to occur is

- A. Reduced cost of an external audit.
- B. Some assurance of compliance with the Foreign Corrupt Practices Act of 1977.
- C. Elimination of employee fraud.
- D. Availability of reliable data for decision-making purposes.

[216] Gleim #: 9.2.54 -- Source: CIA 592 II-17

An adequate system of internal controls is most likely to detect a fraud perpetrated by a

- A. Group of employees in collusion.
- B. Group of managers in collusion.
- C. Single employee.
- D. Single manager.

[217] Gleim #: 9.4.130 -- Source: CIA 589 II-2

The authority of the internal audit activity is limited to that granted by

- A. The audit committee and the chief financial officer.
- B. The board and the controller.
- C. Management and the board.
- D. Senior management and the Standards.

[218] Gleim #: 9.3.122 -- Source: CPA 1180 L-44

The Foreign Corrupt Practices Act of 1977 prohibits bribery of foreign officials. Which of the following statements correctly describes the act's application to corporations engaging in such practices?

- A. It applies only to corporations engaged in foreign commerce.
- B. It applies to all domestic corporations engaged in interstate commerce.
- C. It applies only to multinational corporations.
- D. It applies only to corporations whose securities are registered under the Securities Exchange Act of 1934.

[219] Gleim #: 9.2.61 -- Source: CIA 587 II-24

One control objective of the financing/treasury cycle is the proper authorization of company transactions dealing with debt and equity instruments. Which of the following controls would best meet this objective?

- A. Separation of responsibility for custody of funds from recording of the transaction.
- B. Written company policies requiring review of major funding/repayment proposals by the board of directors.
- C. The company serves as its own registrar and transfer agent.
- D. Use of an underwriter in all cases of new issue of debt or equity instruments.

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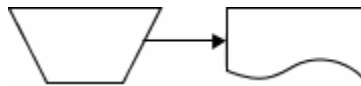
[220] Gleim #: 9.2.59 -- Source: CIA 1186 I-6

A company has computerized sales and cash receipts journals. The computer programs for these journals have been properly debugged. The auditor discovered that the total of the accounts receivable subsidiary accounts differs materially from the accounts receivable control account. This could indicate

- A. Receivables not being properly aged.
- B. Credit memoranda being improperly recorded.
- C. Lapping of receivables.
- D. Statements being intercepted prior to mailing.

[221] Gleim #: 10.2.54 -- Source: CPA 579 A-34

In connection with the consideration of internal control, an auditor encounters the following flowcharting symbols:



The auditor should conclude that a

- A. Master file has been created by a manual operation.
- B. Document has been generated by a manual operation.
- C. Master file has been created by a computer operation.
- D. Document has been generated by a computer operation.

[222] Gleim #: 9.1.26 -- Source: Publisher

Internal control can provide only reasonable assurance of achieving an entity's control objectives. The likelihood of achieving those objectives is affected by which limitation inherent to internal control?

- A. Management monitors internal control.
- B. The board of directors is active and independent.
- C. The cost of internal control should not exceed its benefits.
- D. The auditor's primary responsibility is the detection of fraud.

[223] Gleim #: 9.2.47 -- Source: Publisher

Control procedures include physical controls over access to and use of assets and records. A departure from the purpose of such procedures is that

- A. Access to the safe-deposit box requires two officers.
- B. Only storeroom personnel and line supervisors have access to the raw materials storeroom.
- C. The mail clerk compiles a list of the checks received in the incoming mail.
- D. Only salespersons and sales supervisors use sales department vehicles.

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[224] Gleim #: 9.2.86 -- Source: CMA 1287 5-17

The reporting of accounting information plays a central role in the regulation of business operations. The importance of sound internal control practices is underscored by the Foreign Corrupt Practices Act of 1977 which requires publicly owned U.S. corporations to maintain systems of internal control that meet certain minimum standards. Preventive controls are an integral part of virtually all accounting processing systems, and much of the information generated by the accounting system is used for preventive control purposes. Which one of the following is not an essential element of a sound preventive control system?

- A. Separation of responsibilities for the recording, custodial, and authorization functions.
- B. Implementation of state-of-the-art software and hardware.
- C. Documentation of policies and procedures.
- D. Sound personnel practices.

[225] Gleim #: 9.2.88 -- Source: CMA 690 5-9

If employee paychecks are distributed by hand to employees, which one of the following departments should be responsible for the safekeeping of unclaimed paychecks?

- A. Timekeeping Department.
- B. Cashier Department.
- C. Production Department in which the employee works or worked.
- D. Payroll Department.

[226] Gleim #: 9.1.25 -- Source: CPA 589 A-11

Which of the following is not a component of internal control?

- A. Information and communication.
- B. Monitoring.
- C. The control environment.
- D. Control risk.

[227] Gleim #: 9.4.134 -- Source: CIA 1190 I-49

An internal auditor fails to discover an employee fraud during an assurance engagement. The nondiscovery is **most** likely to suggest a violation of internal auditing standards if it was the result of a

- A. Presumption that the internal controls in the area were adequate and effective.
- B. Determination that any possible fraud in the area would not involve a material amount.
- C. Failure to perform a detailed review of all transactions in the area.
- D. Determination that the cost of extending procedures in the area would exceed the potential benefits.

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[228] Gleim #: 9.2.93 -- Source: CMA 690 5-4

(Refers to Fact Pattern #3)

Responsibility for following up on any problems regarding orders of production materials and supplies, such as orders for which no acknowledgment has been received, orders overdue, partial orders, damaged or substandard merchandise received on an order, etc., would be entrusted to the

- A. Stores Control Department.
- B. Inventory Control Department.
- C. Purchasing Department.
- D. Production Planning Department.

[229] Gleim #: 10.1.28 -- Source: CIA 1193 III-19

Of the techniques available to an auditor, which is the most valuable in providing a summary outline and overall description of the process of transactions in an information system?

- A. Software code comparisons.
- B. Test decks.
- C. Transaction retrievals.
- D. Flowcharts.

[230] Gleim #: 9.2.51 -- Source: CIA 589 II-7

Which of the following controls could be used to detect bank deposits that are recorded but never made?

- A. Establishing accountability for receipts at the earliest possible time.
- B. Having bank reconciliations performed by a third party.
- C. Linking receipts to other internal accountabilities (i.e., collections to either accounts receivable or sales).
- D. Consolidating cash receiving points.

[231] Gleim #: 9.4.128 -- Source: CIA 590 I-5

The purpose of the internal audit activity's evaluation of the effectiveness of existing risk management processes is to determine that

- A. Management directs processes so as to provide reasonable assurance of achieving objectives and goals.
- B. Management has planned and designed so as to provide reasonable assurance of achieving objectives and goals.
- C. The organization's objectives and goals will be achieved in an accurate and timely manner and with minimal use of resources.
- D. The organization's objectives and goals will be achieved efficiently and economically.

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[232] Gleim #: 9.1.24 -- Source: Publisher 2009

The PCAOB's preferred approach to internal controls, as described in Auditing Standard (AS) 5, involves focusing on internal controls

- A. As efficiency-oriented rather than financial statement-oriented.
- B. As preventive rather than detective.
- C. As detective rather than preventive.
- D. As financial statement-oriented rather than efficiency-oriented.

[233] Gleim #: 9.1.7 -- Source: CPA 1173 L-20

Seymore was recently invited to become a director of Buckley Industries, Inc. If Seymore accepts and becomes a director, he along with the other directors will not be personally liable for

- A. Honest errors of judgment.
- B. Lack of reasonable care.
- C. Declaration of a dividend that the directors know will impair legal capital.
- D. Diversion of corporate opportunities to themselves.

[234] Gleim #: 9.2.70 -- Source: CIA 1192 II-20

An audit of the payroll function revealed several instances in which a payroll clerk had added fictitious employees to the payroll and deposited the checks in accounts of close relatives. What control should have prevented such actions?

- A. Using time cards and attendance records in the computation of employee gross earnings.
- B. Having the treasurer's office sign payroll checks.
- C. Allowing changes to the payroll to be authorized only by the personnel department.
- D. Establishing a policy to deal with close relatives working in the same department.

[235] Gleim #: 9.2.105 -- Source: CIA 1190 I-10

Which of the following controls would be the most appropriate means to ensure that terminated employees had been removed from the payroll?

- A. Reconciling payroll and time-keeping records.
- B. Mailing checks to employees' residences.
- C. Establishing direct-deposit procedures with employees' banks.
- D. Establishing computerized limit checks on payroll rates.

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[236] Gleim #: 9.2.66 -- Source: CIA 1187 I-43

Which of the following credit approval procedures would be the basis for developing a deficiency finding for a wholesaler?

- A. Salespeople are responsible for evaluating and monitoring the financial condition of prospective and continuing customers.
- B. Trade-credit standards are reviewed and approved by the finance committee of the board of directors.
- C. An authorized signature from the credit department, denoting approval of the customer's credit, is to appear on all credit-sales orders.
- D. Customers not meeting trade-credit standards are shipped merchandise on a cash-on-delivery (C.O.D.) basis only.

[237] Gleim #: 9.4.126 -- Source: Publisher

Internal auditing is an assurance and consulting activity. An example of an assurance service is a(n)

- A. Training engagement.
- B. Advisory engagement.
- C. Compliance engagement.
- D. Facilitation engagement.

[238] Gleim #: 9.2.102 -- Source: CIA 1189 II-7

The procedure requiring preparation of a prelisting of incoming cash receipts, with copies of the prelist going to the cashier and to accounting, is an example of which type of control?

- A. Detective.
- B. Directive.
- C. Preventive.
- D. Corrective.

[239] Gleim #: 9.2.98 -- Source: Publisher

A reason to establish internal control is to

- A. Safeguard the resources of the organization.
- B. Encourage compliance with organizational objectives.
- C. Ensure the accuracy, reliability, and timeliness of information.
- D. Provide reasonable assurance that the objectives of the organization are achieved.

[240] Gleim #: 10.2.50 -- Source: Publisher

Spoofing is one type of online activity used to launch malicious attacks. Spoofing is

- A. Accessing packets flowing through a network.
- B. Eavesdropping on information sent by a user to the host computer of a website.
- C. Trying large numbers of letter and number combinations to access a network.
- D. Identity misrepresentation in cyberspace.

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[241] Gleim #: 10.2.38 -- Source: Publisher

The firewall system that limits access to a computer network by routing users to replicated websites is

- A. An authentication system.
- B. A packet filtering system.
- C. Kerberos.
- D. A proxy server.

[242] Gleim #: 10.1.9 -- Source: CMA 0205 4-11

Which one of the following statements concerning concurrent auditing techniques is false?

- A. They are standard components of generic software packages.
- B. They allow faster detection of unauthorized transactions.
- C. They are most useful in complex online systems in which audit trails have either become diminished or are very limited.
- D. They allow monitoring a system on a continuous basis for fraudulent transactions.

[243] Gleim #: 9.2.73 -- Source: CIA 589 III-2

The director of internal auditing at a large multinational firm is evaluating the draft of a new travel policy that requires preparation of a travel planning form for all travel. The travel planning form must be approved by the employee's supervisor and the regional vice president. The director of internal auditing should

- A. Avoid involvement in reviewing policies and procedures because such involvement would impair audit independence.
- B. Suggest that a copy of the travel planning form should be sent to the internal audit department.
- C. Ensure that examples of all signatures are on file to use during travel reimbursement procedures.
- D. Address whether the new travel approval policy is an effective control and an efficient use of time for the supervisors and vice presidents involved.

[244] Gleim #: 9.2.49 -- Source: CMA 1286 3-26

Some account balances, such as those for pensions or leases, are the results of complex calculations. The susceptibility to material misstatements in these types of accounts is defined as

- A. Detection risk.
- B. Audit risk.
- C. Sampling risk.
- D. Inherent risk.

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[245] Gleim #: 9.2.37 -- Source: Publisher

Which control is not appropriate for property, plant, and equipment?

- A. Disposal of fully depreciated assets.
- B. Detailed property records and physical controls over assets.
- C. Written policies for capitalization and expenditure and review of application of depreciation methods.
- D. Proper authority for acquisition and retirement of assets.

[246] Gleim #: 9.3.119 -- Source: CMA 1280 3-26

A major impact of the Foreign Corrupt Practices Act of 1977 is that registrants subject to the Securities Exchange Act of 1934 are now required to

- A. Provide access to records by authorized agencies of the federal government.
- B. Produce full, fair, and accurate periodic reports on foreign commerce and/or foreign political party affiliations.
- C. Keep records that reflect the transactions and dispositions of assets and to maintain a system of internal accounting controls.
- D. Prepare financial statements in accord with international accounting standards.

[247] Gleim #: 9.2.31 -- Source: CMA 1281 3-19

When considering internal control over securities, the auditor is especially concerned about

- A. Access to stock certificates by the corporate treasurer.
- B. Approval of temporary stock investment purchases by the corporate treasurer or company president.
- C. Access to stock certificates by the corporate controller.
- D. Preparation of accrual adjustments on bonds by the corporate controller.

[248] Gleim #: 10.2.63 -- Source: CPA 1176 A-13

The normal sequence of documents and operations on a well-prepared systems flowchart is

- A. Bottom to top and left to right.
- B. Top to bottom and right to left.
- C. Top to bottom and left to right.
- D. Bottom to top and right to left.

Gleim CMA Test Prep: Part 1: Financial Planning, Performance, and Control
(249 questions)

[249] Gleim #: 9.4.140 -- Source: CIA 597 I-62

Which of the following activities is not presumed to impair the objectivity of an internal auditor?

- I. Recommending standards of control for a new information system application.
- II. Drafting procedures for running a new computer application to ensure that proper controls are installed.
- III. Performing reviews of procedures for a new computer application before it is installed.

- A. I and III.
- B. I only.
- C. III only.
- D. II only.

Gleim CMA Test Prep: Part 1: Financial Planning, Performance, and Control
Answer Explanations
(249 questions)

[1] Gleim #: 9.4.142 -- Source: CIA 1196 I-7

- Answer (A) is incorrect because An operational effectiveness engagement consists of a comprehensive review of the overall job retraining program.
- Answer (B) is incorrect because A program-results engagement attempts to measure accomplishments and relative success of the program.
- Answer (C) is **correct**. The scope of work of internal auditing includes assurance services that involve evaluating the risk exposures and controls relating to the organization's governance, operations, and information systems. This evaluation extends to risk exposures and controls regarding compliance with laws, regulations, and contracts. It also includes determining whether the organization is in compliance, that is, whether the activities are complying with the appropriate requirements. The internal auditors are verifying that participants in the job retraining program comply with the eligibility requirements.
- Answer (D) is incorrect because An economy and efficiency engagement considers the cost of the program compared with objectives achieved.

[2] Gleim #: 9.4.168 -- Source: CIA 589 I-13

- Answer (A) is incorrect because A program audit would entail evaluating educational benefits. A program audit evaluates the costs and effectiveness of an activity funded by the organization that is ancillary to its main operations.
- Answer (B) is incorrect because A contract audit involves evaluation of a project undertaken for the organization by an outside entity, such as construction of a building.
- Answer (C) is incorrect because An organizational audit applies to a single "organization" within the entity, e.g., personnel. An organizational audit is primarily concerned with management control, that is, with how well managers are applying management principles.
- Answer (D) is **correct**. In a functional audit, the auditor follows a function from beginning to end, even if that function involves more than one organizational subunit. The auditor emphasizes the operation more than its administrative or personnel activities.

Gleim CMA Test Prep: Part 1: Financial Planning, Performance, and Control
Answer Explanations
(249 questions)

[3] Gleim #: 10.1.36 -- Source: CPA 1188 A-32

- Answer (A) is **correct**. One person should not be responsible for all phases of a transaction, i.e., for authorization of transactions, recording of transactions, and custodianship of the related assets. These duties should be performed by separate individuals to reduce the opportunities to allow any person to be in a position both to perpetrate and conceal errors or fraud in the normal course of his/her duties (AU 314).
- Answer (B) is incorrect because Payments must be recorded when made.
- Answer (C) is incorrect because Payment is a form of execution (operational responsibility).
- Answer (D) is incorrect because Custody of assets and execution of related transactions are often not segregated.

[4] Gleim #: 9.2.103 -- Source: CIA 1190 I-18

- Answer (A) is incorrect because It is not an important internal control consideration.
- Answer (B) is incorrect because Foreign currency translation rates are verified, not computed. Having two employees in the same department perform the same task will not significantly enhance internal control.
- Answer (C) is **correct**. Independent reconciliation of bank accounts is necessary for effective internal control. Persons involved in making disbursements or receiving payments should not reconcile the bank statement with the accounting records. Segregating these functions reduces the opportunity for perpetrating and concealing fraud.
- Answer (D) is incorrect because It is not an important internal control consideration.

[5] Gleim #: 10.1.6 -- Source: CMA 0205 .4-10

- Answer (A) is incorrect because Transcription errors will be detected. The sum will be different if such errors occur.
- Answer (B) is incorrect because Validity errors will be detected. The sum will be different if such errors occur.
- Answer (C) is incorrect because Completeness errors will be detected. The sum will be different if such errors occur.
- Answer (D) is **correct**. Self-checking digits may be used to detect incorrect identification numbers. The digit is generated by applying an algorithm to the ID number. During the input process, the check digit is recomputed by applying the same algorithm to the code actually entered. If the check digit is merely a sum, transposition errors will not be detected because the sum will be unaffected.

Gleim CMA Test Prep: Part 1: Financial Planning, Performance, and Control
Answer Explanations
(249 questions)

[6] Gleim #: 9.4.144 -- Source: CIA 1196 I-9

- Answer (A) is incorrect because Reviewing applicable grant agreements is an effective way to learn about the applicable laws and regulations.
- Answer (B) is incorrect because Reviewing prior-year working papers is an effective way to learn about the applicable laws and regulations.
- Answer (C) is **correct**. Discussing the matter with the audit committee would not be helpful. The members are not likely to know the applicable laws and regulations. The audit committee's oversight activities do not provide specific expertise needed to help the internal auditors understand the applicable laws and regulations.
- Answer (D) is incorrect because Making inquiries of the city's chief financial officer, legal counsel, or grant administrators is an effective way to learn about the applicable laws and regulations.

[7] Gleim #: 9.2.32 -- Source: Publisher

- Answer (A) is incorrect because An internal control objective of the revenue cycle is that transactions relating to revenue be properly recorded.
- Answer (B) is **correct**. The revenue cycle embraces the activities pertaining to exchanges with customers and the collection in cash of the amounts paid for the goods or services provided. Ordering appropriate goods, which is an objective of the purchases-payables cycle, is only indirectly related to the revenue cycle.
- Answer (C) is incorrect because An internal control objective of the revenue cycle is that revenue-cycle transactions be properly executed.
- Answer (D) is incorrect because An internal control objective of the revenue cycle is that custody over assets resulting from the revenue cycle be properly maintained.

[8] Gleim #: 9.2.81 -- Source: CIA 595 I-12

- Answer (A) is incorrect because The product manager is evaluated based on sales and gross margin. Hence, there is no conflict negotiating purchases and setting selling prices.
- Answer (B) is incorrect because Evaluating the product managers on gross margin and budgeted sales attaches responsibility to the managers.
- Answer (C) is incorrect because Goods are seasonal and store space is limited. Requiring that such goods be cleared is consistent with maximizing revenue and profitability for the organization as a whole.
- Answer (D) is **correct**. Each store should have a receiving function. The possibility exists that goods could be diverted from the distribution center and not delivered to the appropriate retail store.

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[9] Gleim #: 10.1.7 -- Source: CMA 1296 4-29

- Answer (A) is incorrect because Separation of duties and backup procedures are not mentioned.
- Answer (B) is **correct**. Controls in a payroll system should include a proper separation of the functions of authorization, record keeping, and custody of assets; batch totals for such items as hours worked and payroll amounts; hash totals (e.g., of employee identification numbers) to test for completeness of processing; record counts for each run; special control over unclaimed checks (the person who distributes checks must not retain unclaimed checks); and backup copies of files to allow for reconstruction if information is lost.
- Answer (C) is incorrect because Separation of duties and backup procedures are not mentioned.
- Answer (D) is incorrect because Special controls over unclaimed checks and backup procedures are omitted.

[10] Gleim #: 10.1.32 -- Source: CMA 687 5-9

- Answer (A) is **correct**. A turnaround document is a computer output prepared in such a way that it can eventually be used as a source document for an input transaction. For example, an optical character recognition (OCR) document might be used as a sales invoice to be mailed to a customer and returned with payment. Thus, no new document would have to be prepared to record the payment. Utility bills are often mailed to customers in the form of turnaround documents.
- Answer (B) is incorrect because Turnaround documents circulate both within and without the organization.
- Answer (C) is incorrect because Turnaround documents circulate both within and without the organization.
- Answer (D) is incorrect because Such documents are especially useful in computer systems but are also employed in manual systems.

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[11] Gleim #: 9.1.22 -- Source: CMA 0205 1-27

- Answer (A) is **correct**. An organization's control environment encompasses the attitudes and actions of the board of directors and upper management regarding the significance of control, i.e., the "tone at the top." One of the components of the control environment is the assignment of authority and responsibility. For example, management defines key areas of authority and responsibility by placing the information technology, financial accounting, and treasury functions under separate officers. When the management of one department can override the internal controls of another, authority and responsibility have not been properly assigned.
- Answer (B) is incorrect because Monitoring cannot prevent damage done due to a system design flaw, such as one department being able to override another's internal controls.
- Answer (C) is incorrect because Risk management is the ongoing process of designing and operating internal controls that mitigate the risks identified in the organization's risk assessment.
- Answer (D) is incorrect because Information and communication are ongoing processes in every organization; they are not the basis for internal control.

[12] Gleim #: 10.1.16 -- Source: CMA 1290 4-21

- Answer (A) is incorrect because Security is a proper concern of internal control. Restricted access and passwords are examples of controls to secure data files.
- Answer (B) is **correct**. A functional separation of EDP activities is necessary. A programmer designs program flowcharts and writes the computer programs as required by the system. Once the program has been debugged and the documentation prepared, the programmer should have no further access to it or to data files. A librarian is responsible for permitting only computer operators, not programmers, to have access to programs.
- Answer (C) is incorrect because Effective internal control ensures the reliability of records. A control group (clerk) should perform a continuous review function by supervising and monitoring input, operations, and distribution of output.
- Answer (D) is incorrect because A basic tenet of internal control is that all activities should be executed in accordance with management's express or implied authorization.

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[13] Gleim #: 9.2.58 -- Source: CIA 586 II-17

- Answer (A) is **correct**. Since auditors, storekeepers, etc., may not have the requisite expertise to determine whether materials are usable, that decision must often be made by a designated independent authority. To provide effective control of materials, this determination, asset custody, and authorization for disposal are functions that should be segregated.
- Answer (B) is incorrect because Obsolete materials should be carried at net realizable value.
- Answer (C) is incorrect because Obsolete materials should be stored separately.
- Answer (D) is incorrect because Costs of sorting, etc. may be greater than disposal value.

[14] Gleim #: 9.2.106 -- Source: CIA 589 II-10

- Answer (A) is incorrect because The managers should submit purchase requisitions to the purchasing department. The purchasing function should be separate from operations.
- Answer (B) is incorrect because To encourage a fair count, the receiving department should receive a copy of the purchase order from which the quantity has been omitted.
- Answer (C) is **correct**. Accounting for payables is a recording function. The matching of the supplier's invoice, the purchase order, and the receiving report (and usually the purchase requisition) should be the responsibility of the accounting department. These are the primary supporting documents for the payment voucher prepared by the accounts payable section that will be relied upon by the treasurer in making payment.
- Answer (D) is incorrect because The receiving department should transfer goods directly to the storeroom to maintain security. A copy of the receiving report should be sent to the storeroom so that the amount stored can be compared with the amount in the report.

[15] Gleim #: 9.2.46 -- Source: CMA 690 3-25

- Answer (A) is **correct**. A completeness assertion concerns whether all transactions and accounts that should be presented in the financial statements are so presented. The exclusive use of sequentially numbered documents facilitates control over expenditures. An unexplained gap in the sequence alerts the auditor to the possibility that not all transactions have been recorded. A failure to use prenumbered checks would therefore suggest a higher assessment of control risk. If a company uses prenumbered checks, it should be easy to determine exactly which checks were used during a period.
- Answer (B) is incorrect because Determination of proper amounts of sales invoices concerns the valuation assertion. Also, sales invoices are part of the sales-receivables (revenue) cycle.
- Answer (C) is incorrect because Consideration of the qualifications of accounting personnel is not a test of controls over the completeness of any cycle. This procedure is appropriate during the consideration of the control environment.
- Answer (D) is incorrect because Cash receipts are part of the revenue cycle.

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[16] Gleim #: 9.2.101 -- Source: CIA 1191 I-12

- Answer (A) is incorrect because The question does not indicate that the treasurer has access to the accounting records and thus has the ability to make unauthorized adjustments to the cash account.
- Answer (B) is incorrect because Someone who does not have custody of assets should reconcile the bank statements to accounting records.
- Answer (C) is incorrect because Effective control measures would provide the two opportunities to two different persons in positions of responsibility, the treasurer and the controller.
- Answer (D) is **correct**. Independent reconciliation of bank accounts is necessary for effective internal control. Persons involved in making disbursements or receiving payments should not reconcile the bank statement with the accounting records. Segregating these functions reduces the opportunity for perpetrating and concealing fraud.

[17] Gleim #: 9.2.109 -- Source: CMA 0205 1-29

- Answer (A) is incorrect because Irregular employee reviews may affect employee job performance, but they alone cannot negate effective separation of duties.
- Answer (B) is incorrect because Lack of training by itself cannot negate effective separation of duties.
- Answer (C) is incorrect because While the absence of an internal audit activity may lessen the chances that an organization will maintain effective internal control over the long run, by itself it cannot negate effective segregation of duties.
- Answer (D) is **correct**. By segregating duties, organizations make it more difficult for one person to perpetrate a fraud. When custody of the asset and record-keeping for the asset are invested in different persons, a fraud generally cannot be executed by one of the two parties. However, if they collude, the internal control aspect of the segregation is nullified.

[18] Gleim #: 10.1.3 -- Source: CIA 596 III-51

- Answer (A) is incorrect because Utility programs (e.g., performance monitors, job schedulers, and tape and disk management systems) may have privileged access capabilities. Thus, they may be able to bypass normal security measures. Permitting updating from privileged software is a breach of security.
- Answer (B) is incorrect because Updating of users' access profiles should be a function of a security officer.
- Answer (C) is incorrect because If the only access is read-only, no updating is possible.
- Answer (D) is **correct**. A database management system's software includes security features. Thus, a specified user's access may be limited to certain data fields or logical views depending on the individual's assigned duties. A logical view consists of the fields available to a given user, function, or application. It may include all or part of a physical data file or a combination of fields from multiple physical data files.

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[19] Gleim #: 10.1.20 -- Source: CMA 685 5-27

- Answer (A) is **correct**. An online, real-time system permits interaction between the system and the user. Such a system can be designed to guide data entry by prompting (asking questions of) the user. Automatic teller machines are common examples.
- Answer (B) is incorrect because Checkpoints are “snapshots” of data values and program indicators taken periodically in a batch processing run. They are useful as a means of recovery in the event of a temporary hardware failure.
- Answer (C) is incorrect because It is an access control.
- Answer (D) is incorrect because Overflow occurs when too large a number is attempted to be stored in the CPU’s memory, but an overflow control does not provide assistance to the inexperienced user.

[20] Gleim #: 9.2.94 -- Source: CMA 690 5-5

- Answer (A) is incorrect because An acknowledgment purchase order is not necessary for payment.
- Answer (B) is incorrect because An acknowledgment purchase order is not necessary for payment.
- Answer (C) is incorrect because A monthly statement is not needed; payments are made from the original invoice, not a statement.
- Answer (D) is **correct**. The Accounts Payable Department prepares a voucher from a vendor’s invoice only after examining supporting documents. These include a properly authorized purchase order and a receiving report stating quantities received and their condition.

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[21] Gleim #: 10.2.56 -- Source: Publisher

- Answer (A) is incorrect because Automatic failover is an important aspect of a disaster recovery plan.
- Answer (B) is **correct**. A hot site is a service bureau that is immediately available for purposes of disaster recovery. Failover is a backup operational mode used to make systems more fault-tolerant. The functions of a system component (such as a processor, server, network, or database) are assumed by secondary system components when the primary component becomes unavailable through either failure or scheduled down time. Failover is typically an integral part of mission-critical systems that must be constantly available. It involves automatically offloading tasks to a standby system component so that the procedure is as seamless as possible to the end user. Disaster prevention is also an important aspect of most disaster recovery plans. However, data conversion operators are not part of a disaster recovery plan. They perform the tasks of data preparation and transmission, for example, conversion of source data to magnetic disk or tape and entry of transactions from remote terminals.
- Answer (C) is incorrect because A hot-site recovery system is an important aspect of a disaster recovery plan.
- Answer (D) is incorrect because Focus on disaster prevention is an important aspect of a disaster recovery plan.

[22] Gleim #: 10.1.23 -- Source: CMA 686 5-12

- Answer (A) is incorrect because A checkpoint is a point in a program at which data are recorded for backup purposes.
- Answer (B) is **correct**. A check digit, or self-checking number, is an input control to determine if an error might have been made on an identification number. The digit is an extra number on the end of the identification number (creating a new ID number) which is calculated by an algorithm on the original part of the ID number. If the ID is miskeyed, the algorithm will produce a number different from the check digit and an error will be detected and reported.
- Answer (C) is incorrect because A batch total is the total of an information field in a batch of records.
- Answer (D) is incorrect because A record count is a control total using a count of records processed during the various phases of the operation of a program.

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[23] Gleim #: 10.2.58 -- Source: CMA 1287 5-7

- Answer (A) is incorrect because The mail clerk should prepare a list of checks received before they are forwarded to the treasurer for deposit.
- Answer (B) is incorrect because Daily receipts should be deposited intact daily and then reconciled with the bank deposit records. Prompt deposit also safeguards assets and avoids loss of interest income.
- Answer (C) is incorrect because Record keepers perform functions that should be separate from custody of assets.
- Answer (D) is **correct**. Symbol A is a connector between a point on this flowchart and another part of the flowchart not shown. The checks and the adding machine control tape should flow through symbol A to the treasurer's office. The treasurer is the custodian of funds and is responsible for deposit of daily receipts.

[24] Gleim #: 9.2.48 -- Source: Publisher

- Answer (A) is incorrect because The auditor's responsibility is to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
- Answer (B) is **correct**. A limiting factor is that the cost of an entity's internal control should not exceed the expected benefits. However, although the cost-benefit relationship is a primary criterion that should be considered in designing internal control, the precise measurement of costs and benefits usually is not possible.
- Answer (C) is incorrect because The absence of monitoring weakens internal control.
- Answer (D) is incorrect because An active and independent board strengthens the control environment.

[25] Gleim #: 10.2.41 -- Source: CPA AUD R02-5

- Answer (A) is incorrect because A hoax virus is a false notice about the existence of a computer virus. It is usually disseminated through use of distribution lists and is sent by email or via an internal network.
- Answer (B) is incorrect because A killer application is one that is so useful that it may justify widespread adoption of a new technology.
- Answer (C) is **correct**. A Trojan horse is a computer program that appears friendly, for example, a game, but that actually contains an application destructive to the computer system.
- Answer (D) is incorrect because A web crawler (a spider or bot) is a computer program created to access and read information on websites. The results are included as entries in the index of a search engine.

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[26] Gleim #: 9.2.34 -- Source: CMA 686 3-20

- Answer (A) is incorrect because Mailing payments directly to payees does not prevent a second use of invoices by unethical personnel. Also, record keepers should not have access to signed checks.
- Answer (B) is incorrect because A single endorsement is not a control weakness if the person who signs does not have incompatible functions and if proper documentation is required before signing.
- Answer (C) is incorrect because The vouchers should not be canceled before payment.
- Answer (D) is **correct**. Canceling vouchers and supporting papers (with perforations, ink, etc.) upon payment prevents the payment of a duplicate voucher. If the person signing the check does the canceling, the documents cannot be recycled for duplicate payments. Securing the paid-voucher file from access by the accounts payable clerk is another effective control.

[27] Gleim #: 9.2.84 -- Source: CMA 1289 5-2

- Answer (A) is incorrect because The list does not include the best controls for a payroll system.
- Answer (B) is **correct**. Controls in a payroll system should include a proper separation of the functions of authorization, record keeping, and custody of assets; batch totals for such items as hours worked and payroll amounts; hash totals (e.g., of employee identification numbers) to test for completeness of processing; record counts for each run; special control over unclaimed checks (the person who distributes checks must not retain unclaimed checks); and backup copies of files to allow for reconstruction if information is lost.
- Answer (C) is incorrect because The list does not include the best controls for a payroll system.
- Answer (D) is incorrect because The list does not include the best controls for a payroll system.

[28] Gleim #: 9.2.41 -- Source: CIA 590 I-9

- Answer (A) is incorrect because Unclaimed checks should be in the custody of the treasurer until they can be deposited in a special bank account.
- Answer (B) is incorrect because Authorizing overtime is a responsibility of operating management.
- Answer (C) is **correct**. The payroll department is responsible for assembling payroll information (record keeping). The personnel department is responsible for authorizing employee transactions such as hiring, firing, and changes in pay rates and deductions. Segregating the recording and authorization functions helps prevent fraud.
- Answer (D) is incorrect because The treasurer should perform the asset custody function regarding payroll.

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[29] Gleim #: 9.2.69 -- Source: CIA 1192 I-18

- Answer (A) is incorrect because Recording every transaction on the day it occurs is a preventive control. The control is designed to deter an undesirable event.
- Answer (B) is incorrect because Monthly bank statement reconciliation is a detective control. The events under scrutiny have already occurred.
- Answer (C) is **correct**. Requiring all members of the internal auditing department to be CIAs is a directive control. The control is designed to encourage a desirable event to occur, i.e., to enhance the professionalism and level of expertise of the internal auditing department.
- Answer (D) is incorrect because Dual signatures on all disbursements over a specific dollar amount is a preventive control. The control is designed to deter an undesirable event.

[30] Gleim #: 9.2.89 -- Source: CMA 690 5-10

- Answer (A) is incorrect because It is a proper segregation of functions.
- Answer (B) is incorrect because It is a proper segregation of functions.
- Answer (C) is incorrect because It is a proper segregation of functions.
- Answer (D) is **correct**. Allowing a sales department to approve a credit memo without a receiving report would be dangerous. Sales personnel could overstate sales in one period and then reverse them in subsequent periods. Thus, a copy of the receiving report for returned goods should be sent to the billing department for preparation of a credit memo after approval by a responsible supervisor who is independent of the Sales Department.

[31] Gleim #: 9.4.165 -- Source: CIA 590 I-50

- Answer (A) is incorrect because By always giving the impression that additional evidence is in reserve, the internal auditors are more apt to obtain complete and truthful answers.
- Answer (B) is incorrect because Fraud investigations usually occur unexpectedly and cannot be scheduled in advance. Also, the fraud investigation must be conducted by individuals having the appropriate expertise, even if another engagement must be delayed.
- Answer (C) is incorrect because The internal auditors should coordinate their activities with the other investigators mentioned.
- Answer (D) is **correct**. When conducting fraud investigations, internal auditors should assess the probable level of, and the extent of complicity in, the fraud within the organization. This can be critical to ensuring that the internal auditor avoids providing information to, or obtaining misleading information from, persons who may be involved (PA 1210.A2-1).

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[32] Gleim #: 10.1.15 -- Source: CMA 687 5-5

- Answer (A) is incorrect because It describes a completeness check.
- Answer (B) is incorrect because It describes prompting.
- Answer (C) is incorrect because It describes an edit routine.
- Answer (D) is **correct**. To avoid data entry errors in online systems, a screen prompting approach may be used. The dialogue approach, for example, presents a series of questions to the operator. The preformatted screen approach involves the display on the CRT of a set of boxes for entry of specified data items. The format may even be in the form of a copy of a transaction document.

[33] Gleim #: 10.1.19 -- Source: CMA 685 5-25

- Answer (A) is incorrect because Reasonable but not absolute assurance can be provided.
- Answer (B) is incorrect because The development of a plan is not the same as its successful implementation.
- Answer (C) is **correct**. A comprehensive computer security plan should be developed to safeguard physical facilities and hardware and provide for the privacy and integrity of data. Such a plan assists management in ensuring that benefits exceed costs.
- Answer (D) is incorrect because Identification of all threats is not possible.

[34] Gleim #: 10.1.5 -- Source: CMA 695 4-23

- Answer (A) is incorrect because Passwords are access controls.
- Answer (B) is **correct**. Application controls, including input controls, are designed to assure the accuracy and completeness of data entered into the computer. Input controls provide assurance that data have not been lost, suppressed, added, duplicated, or otherwise improperly changed. A hash total is an example of a data input validation routine. A hash total is a control total without a defined meaning, such as the total of employee numbers or invoice numbers, that is used to verify the completeness of data. Thus, the hash total for the employee listing by the personnel department could be compared with the total generated during the processing run.
- Answer (C) is incorrect because Terminal logs are access controls.
- Answer (D) is incorrect because Backup controls are general controls.

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[35] Gleim #: 9.2.65 -- Source: CIA 1186 I-9

- Answer (A) is incorrect because Foremen should not distribute paychecks since they may have access to time cards. The paymaster should distribute checks.
- Answer (B) is incorrect because Unclaimed paychecks should be deposited in a bank account.
- Answer (C) is **correct**. Piecework is production that is compensated at a set amount per unit of output rather than time spent on the job. Comparing production amounts (inventory additions) with payments (piecework records) is therefore an appropriate control over payroll.
- Answer (D) is incorrect because Someone other than an employee could punch his/her time card.

[36] Gleim #: 10.2.46 -- Source: CIA 1195 III-37

- Answer (A) is incorrect because Antivirus software need not interfere with system operations. Its execution can be scheduled in advance so as not to interfere with running programs.
- Answer (B) is incorrect because Antivirus software can be set to execute at times when it would not consume too many system resources, e.g., at startup.
- Answer (C) is **correct**. Antivirus software designed to identify and remove known viruses is sometimes known as a vaccine. A vaccine works only for known viruses and may not be effective for variants of those viruses or new viruses.
- Answer (D) is incorrect because Having antivirus software is unlikely to make software installation overly complex.

[37] Gleim #: 10.1.35 -- Source: CPA 1194 A-26

- Answer (A) is incorrect because Accountants typically journalize entries and prepare financial statements.
- Answer (B) is incorrect because Accountants may record both cash receipts and cash disbursements as long as they do not have custody of cash.
- Answer (C) is incorrect because Management establishes internal control and ultimately has the responsibility to authorize transactions.
- Answer (D) is **correct**. Segregation of duties is a category of the control activities component of internal control. Segregating responsibilities for authorization, recording, and asset custody reduces an employee's opportunity to perpetrate an error or fraud and subsequently conceal it in the normal course of his/her duties.

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[38] Gleim #: 9.4.156 -- Source: CIA 591 I-17

- Answer (A) is **correct**. The personnel department is responsible for authorization and execution of payroll transactions, e.g., hiring of new employees and determining their pay rates. Hence, this department's verification of the payroll changes listing used in data processing is an important control over payroll processing.
- Answer (B) is incorrect because Labor hours should come from the time reporting system (time card or time sheet), not the list of payroll changes.
- Answer (C) is incorrect because Inspection of the listing of payroll changes would indicate whether contributions by eligible employees have begun to be deducted, not whether employees have been asked about contributing to the pension plan.
- Answer (D) is incorrect because Inaccurate Social Security deductions could be caused by errors in payroll rates.

[39] Gleim #: 9.1.21 -- Source: CMA 0205 1-27

- Answer (A) is incorrect because Assessing the quality of internal controls is a portion of the internal control department's ongoing duties; it is not a definition of risk assessment.
- Answer (B) is incorrect because Internal control objectives cannot be formulated until the organization knows what its vulnerabilities are.
- Answer (C) is incorrect because Identifying and capturing information in a timely fashion is a function of an information system, not of risk assessment.
- Answer (D) is **correct**. Every organization faces risks, that is, unforeseen obstacles to the pursuit of its objectives. Risks take many forms and can originate from within or from outside the organization. Risk assessment is the process whereby management identifies the organization's vulnerabilities.

[40] Gleim #: 9.4.163 -- Source: CIA 1194 I-64

- Answer (A) is incorrect because Raising this issue in public may expose the internal auditor to liability for defamation.
- Answer (B) is incorrect because The project engineer has already been asked about the facts and did not resolve the issue.
- Answer (C) is **correct**. When fraud is suspected, the internal auditor should inform the appropriate authorities within the organization. The CAE should then determine the course of action to take. The CAE is responsible for reporting immediately any incident of significant fraud to senior management or the board (PA 1210.A2-1).
- Answer (D) is incorrect because The unexplained payment may be an indication of fraud.

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[41] Gleim #: 10.2.55 -- Source: CMA 689 5-2

- Answer (A) is **correct**. A system flowchart is a graphic analysis of a data processing application, usually prepared by a systems analyst. The system flowchart is general and stresses flows of data, not computer program logic. A program flowchart is a graphic representation of the detailed steps and logic of an individual computer program.
- Answer (B) is incorrect because A program flowchart shows only the details of a single program, not the entire computer system.
- Answer (C) is incorrect because A data-flow diagram would show only the flow of data, not the total system.
- Answer (D) is incorrect because A Gantt chart is a bar chart used to monitor the progress of large projects.

[42] Gleim #: 9.2.95 -- Source: CMA 690 5-6

- Answer (A) is **correct**. The Production Planning Department uses a production order to authorize the Production Department to manufacture a specific product.
- Answer (B) is incorrect because A raw materials requisition is sent from the Production Department to inventory control to obtain materials needed for production.
- Answer (C) is incorrect because The daily production schedule is used to plan a variety of manufacturing activities.
- Answer (D) is incorrect because A bill of materials is a list of the components in a particular product.

[43] Gleim #: 10.2.67 -- Source: CPA 1177 A-54

- Answer (A) is incorrect because A flowchart does not necessarily replace the auditor's internal control questionnaire. Controls beyond those depicted on the systems flowchart must also be considered by the auditor, and information obtained from the questionnaire may be used to develop the flowchart.
- Answer (B) is **correct**. A systems flowchart is a symbolic representation of the flow of documents and procedures through a series of steps in the accounting process of the client's organization.
- Answer (C) is incorrect because A pictorial presentation of the flow of instructions in a client's internal computer system is a computer program flowchart.
- Answer (D) is incorrect because The organizational chart depicts the client's internal reporting structure.

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[44] Gleim #: 9.2.87 -- Source: CMA 690 5-7

- Answer (A) is incorrect because The production order cost summary is the total of costs assigned to a particular production order.
- Answer (B) is incorrect because The payroll register is the listing of payroll checks given to each employee. The total of the payroll register is the total payroll for the period.
- Answer (C) is **correct**. A job time ticket is used by employees to account for their time throughout the day. As an employee finishes his/her work on a particular job, (s)he prepares a time ticket that lists the amount of time spent on that job so that its cost can be calculated.
- Answer (D) is incorrect because An operations list is a listing of operations required for a product.

[45] Gleim #: 9.2.64 -- Source: CIA 1193 II-11

- Answer (A) is incorrect because The requesting department normally develops specifications.
- Answer (B) is incorrect because Open purchase orders are customary for high-use items.
- Answer (C) is incorrect because An approved vendor list is often maintained as a control factor to help ensure that purchases are made only from reliable vendors. However, rotation is not usually appropriate.
- Answer (D) is **correct**. Purchasing from parties related to buyers or other company officials is a risk factor because it suggests the possibility of fraud. Such conflicts of interest may result in transactions unfavorable to the company.

[46] Gleim #: 9.2.110 -- Source: CMA 1283 3-15

- Answer (A) is incorrect because An effective control need not use statistical procedures.
- Answer (B) is incorrect because Operational audits deal with effectiveness and efficiency and thus would not influence the effectiveness of the auditor as a control relevant to financial statement audits.
- Answer (C) is incorrect because Intangible benefits may render an internal audit function an effective control even if it is not cost effective. It may not be good management to have an internal auditor who is not cost effective, but that does not affect the internal audit function's status as a control.
- Answer (D) is **correct**. The internal auditor and the internal audit department can only be an effective control relevant to financial statement audits if the chief internal auditor reports to the board of directors or someone else outside the accounting function. Internal auditing must be independent to be effective.

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[47] Gleim #: 9.2.57 -- Source: CMA 686 3-14

- Answer (A) is incorrect because It is concerned with the reliability and accuracy of accounting data reported in financial statements.
- Answer (B) is incorrect because It is designed to safeguard assets. Safeguarding assets is an objective inherent in the internal control structure relevant to a financial statement audit.
- Answer (C) is **correct**. Policies and procedures relevant to a financial statement audit pertain to the entity's ability to record, process, summarize, and report financial data consistent with the assertions in the financial statements. Other policies and procedures may not be relevant to a financial statement audit, e.g., those concerning the effectiveness, economy, and efficiency of certain management decision-making processes (AU 319). Production controls, such as quality control reports, may fall in the latter category.
- Answer (D) is incorrect because It is concerned with the reliability and accuracy of accounting data reported in financial statements.

[48] Gleim #: 10.2.51 -- Source: Publisher

- Answer (A) is incorrect because Password-cracking software is used to access a network by using a large number of letter and number combinations.
- Answer (B) is **correct**. A denial-of-service (DS) attack is an attempt to overload a system (e.g., a network or web server) with false messages so that it cannot function (a system crash). A distributed DS attack comes from multiple sources, for example, the machines of innocent parties infected by Trojan horses. When activated, these programs send messages to the target and leave the connection open. A DS may establish as many network connections as possible to exclude other users, overload primary memory, or corrupt file systems.
- Answer (C) is incorrect because A man-in-the-middle attack takes advantage of network packet sniffing and routing and transport protocols to access packets flowing through a network.
- Answer (D) is incorrect because A brute-force attack uses password cracking software to try large numbers of letter and number combinations to access a network.

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[49] Gleim #: 10.1.25 -- Source: CMA 687 5-7

- Answer (A) is incorrect because It would be included in the table or matrix.
- Answer (B) is incorrect because It would be included in the table or matrix.
- Answer (C) is **correct**. Compatibility tests restrict access to the computer system by determining whether access by a given user (or device) is compatible with the nature of the attempted use. A series of passwords or identification numbers may be required to gain access to the system, to examine data files, and to perform processing using particular programs. Thus, a clerk might be authorized only to read the data in a given file while using a specified terminal, but his/her superior might be able to update the file. Compatibility tests require online storage of authorization tables or matrices that specify the access permitted to specified codes and devices. The number of authorized inquiries per user is not included in such a table.
- Answer (D) is incorrect because It would be included in the table or matrix.

[50] Gleim #: 9.1.10 -- Source: CIA 1192 I-6

- Answer (A) is incorrect because Although the audit committee may participate in some of the identified activities, none is as beneficial as protecting the independence of the IAA.
- Answer (B) is incorrect because Although the audit committee may participate in some of the identified activities, none is as beneficial as protecting the independence of the IAA.
- Answer (C) is incorrect because Although the audit committee may participate in some of the identified activities, none is as beneficial as protecting the independence of the IAA.
- Answer (D) is **correct**. The audit committee is a subcommittee of outside directors who are independent of corporate management. Its purpose is to help keep external and internal auditors independent of management and to ensure that the directors are exercising due care. This committee often selects the external auditors, reviews their overall audit plan, and examines the results of external and internal audits.

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[51] Gleim #: 9.4.125 -- Source: CIA 1196 III-30

- Answer (A) is incorrect because Reducing external audit fees may be a direct result of internal auditing work, but it is not a reason for staffing an internal audit activity.
- Answer (B) is **correct**. According to the definition of internal auditing, “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”
- Answer (C) is incorrect because Internal auditors serve management as well as the board.
- Answer (D) is incorrect because The primary role of internal auditing includes but is not limited to assessing the efficiency of operations.

[52] Gleim #: 9.3.120 -- Source: Publisher

- Answer (A) is incorrect because These are true statements about Section 404 requirements.
- Answer (B) is incorrect because These are true statements about Section 404 requirements.
- Answer (C) is incorrect because These are true statements about Section 404 requirements.
- Answer (D) is **correct**. The Sarbanes-Oxley Act of 2002 imposes many requirements on management, boards of directors, and auditors. Section 404 deals with internal controls and reports thereon. It requires management to establish and document internal control procedures and to include in their annual reports a report on the company’s internal control over financial reporting. The report is to include a statement of management’s responsibility for internal control, management’s assessment of the effectiveness of internal control as of the end of the most recent fiscal year, identification of the framework used to evaluate the effectiveness of internal control (such as the COSO report), and a statement that the external auditor has issued an attestation report on management’s assessment. Because of this requirement, there are two audit opinions: one on internal control and one on the financial statements. Section 301 does address activities of the audit committee, but it contains no requirement that the audit committee approve the choice of accounting policies and practices. Section 204 states that the auditor must report to the audit committee all critical accounting policies and practices, alternative treatments of information discussed with management, implications of the alternatives, and the treatment preferred by the auditor.

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[53] Gleim #: 9.4.161 -- Source: CIA 0597 1-58

- Answer (A) is incorrect because Effective control, an internal auditing function, and adequate and reliable communication with management help to deter fraud.
- Answer (B) is incorrect because Effective control, an internal auditing function, and adequate and reliable communication with management help to deter fraud.
- Answer (C) is **correct**. Deterrence of fraud consists of those actions taken to discourage the perpetration of fraud and limit the exposure if fraud does occur. The principal mechanism for deterring fraud is control. Primary responsibility for establishing and maintaining control rests with management. Furthermore, internal auditors are responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of the system of internal control, commensurate with the extent of the potential exposure/risk in the various segments of the organization's operations. Internal auditors should determine whether the organization fosters control consciousness, realistic goals and objectives are set, written policies describe prohibited acts and their consequences, transaction-authorization policies are maintained, mechanisms exist to monitor activities and safeguard assets, communication channels provide management with adequate and reliable information, and cost-effective controls need to be established to deter fraud (PA 1210.A2-1).
- Answer (D) is incorrect because Effective control, an internal auditing function, and adequate and reliable communication with management help to deter fraud.

[54] Gleim #: 10.1.29 -- Source: CMA 685 5-24

- Answer (A) is incorrect because Hardware and operating controls are general controls.
- Answer (B) is **correct**. Application controls relate to specific tasks performed by the IT department. Their function is to provide reasonable assurance that recording, processing, and reporting of data are performed properly. Application controls are often categorized as input controls, processing controls, and output controls.
- Answer (C) is incorrect because Separation of incompatible functions is a general, not an application, control.
- Answer (D) is incorrect because Hardware and operating controls are general controls.

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[55] Gleim #: 9.1.1 -- Source: CMA 685 3-17

- Answer (A) is incorrect because Many factors beyond the purview of the auditor affect profits, and the controls related to operational efficiency are usually not directly relevant to an audit.
- Answer (B) is incorrect because The chief accounting officer need not review all accounting transactions.
- Answer (C) is incorrect because Controls relevant to a financial statement audit do not concern the treatment of corporate morale problems.
- Answer (D) is **correct**. Internal control is designed to provide reasonable assurance of the achievement of objectives in the categories of (1) reliability of financial reporting, (2) effectiveness and efficiency of operations, and (3) compliance with laws and regulations. Controls relevant to a financial statement audit ordinarily pertain to the objective of preparing external financial statements that are fairly presented in conformity with GAAP or another comprehensive basis of accounting.

[56] Gleim #: 9.2.107 -- Source: CIA 1190 II-8

- Answer (A) is incorrect because Failing to approve the time cards would not result in duplicate paychecks.
- Answer (B) is incorrect because This mistake could be prevented by positively identifying paycheck recipients.
- Answer (C) is **correct**. First-line supervisors are in a position to determine whether employees have actually worked the hours indicated on their time cards. Accordingly, the supervisor's approval is a necessary control to prevent unearned payments.
- Answer (D) is incorrect because This error may result if the hourly rates used to calculate pay are not matched with personnel records.

[57] Gleim #: 9.3.117 -- Source: CMA 1285 3-30

- Answer (A) is incorrect because Compliance with the FCPA is not the specific responsibility of the board of directors.
- Answer (B) is incorrect because Compliance with the FCPA is not the specific responsibility of the chief financial officer.
- Answer (C) is **correct**. The accounting requirements apply to all public companies that must register under the Securities Exchange Act of 1934. The responsibility is thus placed on companies, not individuals.
- Answer (D) is incorrect because Compliance with the FCPA is not the specific responsibility of the director of internal auditing.

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[58] Gleim #: 9.2.55 -- Source: CIA 1195 I-16

- Answer (A) is incorrect because The manager's activity is an example of a reconciliation control applied at the store level. Monitoring is an overall control that determines whether other controls are operating effectively.
- Answer (B) is incorrect because The division of duties is an operational control.
- Answer (C) is incorrect because Daily transmission of cash is an operational control.
- Answer (D) is **correct**. Monitoring is a process that assesses the quality of internal control over time. It involves assessment by appropriate personnel of the design and operation of controls and the taking of corrective action. Monitoring can be done through ongoing activities or separate evaluations. Ongoing monitoring procedures are built into the normal recurring activities of an entity and include regular management and supervisory activities. Thus, analysis of gross margin data and investigation of significant deviations is a monitoring process.

[59] Gleim #: 9.1.12 -- Source: CIA 593 II-13

- Answer (A) is incorrect because The CEO and audit committee most likely should receive summary reports. Senior management and the board ordinarily are not involved in the details of internal audit work.
- Answer (B) is incorrect because The CEO and audit committee most likely should receive summary reports. Senior management and the board ordinarily are not involved in the details of internal audit work.
- Answer (C) is **correct**. To avoid conflict between the CEO and the audit committee, the CAE should request that the board establish policies covering the IAA's relationships with the audit committee. The CAE should have regular communication with the board, audit committee, or other appropriate governing authority. Furthermore, the board should approve a charter that defines the purpose, authority, and responsibility of the IAA.
- Answer (D) is incorrect because Independence is not sufficient to avert conflict unless reporting relationships are well defined.

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[60] Gleim #: 9.4.145 -- Source: CIA 1193 II-13

- Answer (A) is incorrect because Benefit payments concern specific engagement objectives subsumed by the primary objective of compliance with laws, regulations, and contracts.
- Answer (B) is incorrect because Participation levels concern specific engagement objectives subsumed by the primary objective of compliance with laws, regulations, and contracts.
- Answer (C) is incorrect because Contributions concern specific engagement objectives subsumed by the primary objective of compliance with laws, regulations, and contracts.
- Answer (D) is **correct**. The IAA evaluates risk exposures related to governance, operations, and information systems regarding, among other things, compliance with laws, regulations, and contracts. Based on the risk assessment, the IAA evaluates the adequacy and effectiveness of controls encompassing governance, operations, and information systems. This evaluation should include, among other things, compliance with laws, regulations, and contracts (Standards 2110.A2 and 2120.A1). Operation in accordance with contracts and regulations takes precedence over all other objectives because it relates to the most basic aspects of the programs.

[61] Gleim #: 9.4.133 -- Source: Publisher

- Answer (A) is incorrect because The challenge for the IAA is to evaluate the effectiveness of the organization's control processes based on the aggregation of many individual assessments. Those assessments are largely gained from internal audit engagements, reviews of management's self assessments, and other assurance providers' work (PA 2130-1).
- Answer (B) is incorrect because The board is responsible for implementing the organization's governance processes.
- Answer (C) is incorrect because Senior management is responsible for overseeing the establishment of internal control processes.
- Answer (D) is **correct**. The CAE forms an overall opinion about the adequacy and effectiveness of the control processes. The expression of such an opinion by the CAE will be based on sufficient audit evidence obtained through the completion of audits and, if appropriate, reliance on the work of other assurance providers. The CAE communicates the opinion to senior management and the board annually (PA 2130-1).

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[62] Gleim #: 9.4.136 -- Source: CIA 1188 II-3

- Answer (A) is incorrect because Verifying existence relates to the safeguarding of assets.
- Answer (B) is incorrect because The accuracy of asset valuation concerns the reliability and integrity of information.
- Answer (C) is incorrect because The reliability of operating information concerns the reliability and integrity of information.
- Answer (D) is **correct**. The IAA evaluates the controls encompassing governance, operations, and information systems. This evaluation includes the effectiveness and efficiency of operations (Standard 2120.A1). Moreover, the internal auditors must “ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished” (Standard 2210.A3).

[63] Gleim #: 10.2.40 -- Source: Publisher

- Answer (A) is incorrect because Mapping involves monitoring the execution of an application program to determine certain statistical information about a computer run.
- Answer (B) is incorrect because Parallel simulation involves the use of specially prepared application-type programs to process transactions that have also been run in routine processing.
- Answer (C) is incorrect because Concurrency controls manage situations in which two or more programs attempt to use a file or database at the same time.
- Answer (D) is **correct**. Firewalls separate an internal network from an external network (such as the Internet) and prevent passage of specific types of traffic.

[64] Gleim #: 10.2.66 -- Source: CPA 1193 A-16

- Answer (A) is incorrect because The flowchart does not provide evidence of how effectively the procedures are actually operating.
- Answer (B) is **correct**. Systems flowcharts provide a visual representation of a series of sequential processes, that is, of a flow of documents, data, and operations. In many instances a flowchart is preferable to a questionnaire because a picture is usually more easily comprehended.
- Answer (C) is incorrect because The flowchart is useful in documenting the understanding of control, but it does not reduce the need for observation of employees performing tasks if those tests of controls are deemed necessary.
- Answer (D) is incorrect because A systems flowchart can present the flow of information and documents in a system, but does not specifically identify the weaknesses.

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[65] Gleim #: 10.2.64 -- Source: CIA 589 III-18

- Answer (A) is incorrect because The rectangle is the appropriate symbol for a process or a single step in a procedure or program.
- Answer (B) is **correct**. Flowcharts illustrate in pictorial fashion the flow of data, documents, and/or operations in a system. Flowcharts may summarize a system or present great detail, e.g., as found in program flowcharts. According to the American National Standards Institute, the diamond-shaped symbol represents a decision point or test of a condition in a program flowchart, that is, the point at which a determination must be made as to which logic path (branch) to follow. The diamond is also sometimes used in systems flowcharts.
- Answer (C) is incorrect because A predefined processing step is represented by a rectangle with double lines on either side.
- Answer (D) is incorrect because A terminal display is signified by a symbol similar to the shape of a cathode ray tube.

[66] Gleim #: 9.1.20 -- Source: Publisher

- Answer (A) is incorrect because Another risk factor is display of an excessive interest in improving the entity's stock price or earnings trend through use of unusually aggressive accounting practices.
- Answer (B) is **correct**. The auditor would be concerned if the decision process were dominated by one individual or a small group. In that case, compensating controls, e.g., effective oversight by the audit committee, reduce risk.
- Answer (C) is incorrect because One risk factor is management's commitment to third parties to achieve unduly aggressive or clearly unrealistic forecasts.
- Answer (D) is incorrect because Still another risk factor pertaining to management's characteristics and influence over the control environment is an interest in inappropriate methods of minimizing earnings for tax purposes.

[67] Gleim #: 10.1.17 -- Source: CMA 691 4-25

- Answer (A) is **correct**. Edit checks are those that are programmed into the software. They include error listings, field checks, financial totals, hash totals, limit and range checks, preformatting, reasonableness (relationship) tests, record counts, self-checking digits, sequence checks, sign checks, and validity checks. Such checks should be performed on transactions before the master file is updated.
- Answer (B) is incorrect because Edit checks are not necessary for a system to run; they are purely for internal control purposes.
- Answer (C) is incorrect because Edit checks are normally performed at the time of input or during manipulation of data, not at the time of output.
- Answer (D) is incorrect because Edit checks also include detective and corrective controls.

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[68] Gleim #: 9.4.137 -- Source: CIA 592 II-4

- Answer (A) is incorrect because The scope of internal auditing is much broader than concern for the fairness of financial statements.
- Answer (B) is **correct**. “Adequacy of risk management, control, and governance processes is present if management has planned and designed them in a manner that provides reasonable assurance that the organization’s objectives and goals will be achieved efficiently and economically. Efficient performance accomplishes objectives and goals in an accurate, timely, and economical fashion. Economical performance accomplishes objectives and goals with minimal use of resources (i.e., cost) commensurate with the risk exposure. Reasonable assurance is provided if the most cost-effective measures are taken in the design and implementation stages to reduce risks and restrict expected deviations to a tolerable level. Thus, the design process begins with the establishment of objectives and goals. This is followed by connecting or interrelating concepts, parts, activities, and people in such a manner as to operate together to achieve the established objectives and goals” (PA 2100-1).
- Answer (C) is incorrect because The nature, timing, and extent of certain tests must be determined before the adequacy of control processes can be evaluated.
- Answer (D) is incorrect because Internal auditors have no authority to ensure correction of material weaknesses.

[69] Gleim #: 9.2.79 -- Source: Publisher

- Answer (A) is incorrect because Internal auditors are responsible for examining and evaluating the adequacy and effectiveness of internal control.
- Answer (B) is **correct**. Management is responsible for establishing goals and objectives, developing and implementing control procedures, and accomplishing desired results.
- Answer (C) is incorrect because External auditors are responsible for the independent outside audit of financial statements.
- Answer (D) is incorrect because Accounts receivable staff is responsible for daily transaction handling.

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[70] Gleim #: 10.2.49 -- Source: CIA 1195 III-61

- Answer (A) is **correct**. Viruses are harmful programs that disrupt memory and processing functions and may destroy data. They spread from network to network, from infected diskettes, or from infected machines. Hence, connecting all networked personal computers through a host computer to outside networks increases the exposure of all of a company's computers to viruses.
- Answer (B) is incorrect because Whether data downloaded to the personal computers is sufficiently timely is independent of whether external links to other networks exist.
- Answer (C) is incorrect because Whether software maintenance on the personal computers becomes more costly is independent of whether external links to other networks exist.
- Answer (D) is incorrect because Whether uploaded files are properly edited and validated is independent of whether external links to other networks exist.

[71] Gleim #: 9.4.166 -- Source: CIA 1192 II-49

- Answer (A) is incorrect because Irregular transactions under investigation would not require reporting until the investigation determines with reasonable certainty that a significant fraud has occurred.
- Answer (B) is **correct**. Sufficient investigation should take place to establish reasonable certainty that a fraud has occurred before any reporting is done. When the incidence of significant fraud has been established to a reasonable certainty, senior management and the board should be notified immediately (PA 1210.A2-1).
- Answer (C) is incorrect because Reporting should occur when the incidence of significant fraud has been established to a reasonable certainty.
- Answer (D) is incorrect because No reporting is required merely because suspicious acts have been reported.

[72] Gleim #: 9.4.143 -- Source: CIA 1196 I-8

- Answer (A) is incorrect because The internal auditors should determine that the city has complied with the requirement to adopt a budget.
- Answer (B) is incorrect because Checking a sample of expenditures might reveal expenditures charged to the wrong account to bypass budgeting control.
- Answer (C) is incorrect because The internal auditors should verify that the city has complied with the requirement to adhere to the budget.
- Answer (D) is **correct**. The activities of the granting agency are not relevant to a compliance engagement relating to the city's use of the grant funds. The internal auditors are only responsible for determining whether the city is in compliance with the requirements of the grant.

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[73] Gleim #: 9.2.83 -- Source: CMA 1287 5-15

- Answer (A) is **correct**. A hash total of employee numbers would detect such a substitution although the termination had not yet been recorded. A hash total is an otherwise meaningless control total, such as the total of employee numbers or invoice numbers, that is used to verify data. Thus, the hash total for the employee listing by the personnel department could be compared with the total generated during the payroll run.
- Answer (B) is incorrect because A record count is a control total of the number of records processed during the operation of a program. In this question, the number of documents was correct, assuming that the termination had not yet been recorded.
- Answer (C) is incorrect because A batch total, such as a financial total, summarizes one information field, such as pay or hours worked, in a group of documents. In this question, this item would have appeared to be correct.
- Answer (D) is incorrect because A hash total would detect the irregularity more quickly and easily than a subsequent check.

[74] Gleim #: 9.4.132 -- Source: CIA 1193 II-8

- Answer (A) is incorrect because Internal auditors are responsible for evaluating the adequacy and effectiveness of controls, including those relating to the reliability and integrity of financial and operational information (Standard 2130.A1).
- Answer (B) is incorrect because The board has oversight responsibilities but ordinarily does not become involved in the details of operations.
- Answer (C) is incorrect because Senior management's role is to oversee the establishment, administration, and assessment of the system of risk management and control processes (PA 2130-1).
- Answer (D) is **correct**. Senior management's role is to oversee the establishment, administration, and assessment of the system of risk management and control processes. Among the responsibilities of the organization's line managers is the assessment of the control processes in their respective areas. Internal auditors provide varying degrees of assurance about the effectiveness of the risk management and control processes in select activities and functions of the organization (PA 2130-1).

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[75] Gleim #: 9.4.151 -- Source: Publisher

- Answer (A) is **correct**. The true statement is given in the seventh principle of PA 1000.C1-1. This principle is titled *Internal Audit Foundation for Consulting Services*. The principle further states that the internal audit activity is uniquely positioned to perform this type of consulting work based on (a) its adherence to the highest standards of objectivity and (b) its breadth of knowledge about organizational processes, risk, and strategies.
- Answer (B) is incorrect because Consulting services may enhance the auditor's understanding of business processes or issues related to an assurance engagement and do not necessarily impair the auditor's or the internal audit activity's objectivity.
- Answer (C) is incorrect because The board or audit committee should empower the internal audit activity to perform additional services if they do not represent a conflict of interest or detract from its obligations to the committee.
- Answer (D) is incorrect because An organization may find that the internal audit activity is uniquely qualified for some formal consulting tasks, however management often engages outside consultants for formal consulting engagements.

[76] Gleim #: 9.1.6 -- Source: Publisher

- Answer (A) is **correct**. Officers and employees as well as directors are fiduciaries with regard to the corporation. They owe a duty of loyalty, good faith, and fair dealing when transacting business with or on behalf of the company. This duty requires full disclosure of any personal interest in transactions with the corporation, avoidance of conflicts of interest and the making of secret profits, and placing the corporate interest ahead of personal gain.
- Answer (B) is incorrect because The corporation itself is the principal.
- Answer (C) is incorrect because A trustee holds legal title to property used for the benefit of others.
- Answer (D) is incorrect because A director is not an agent. (S)he cannot act alone to bind the corporation. As a group, directors control the corporation in a manner that agents could not.

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[77] Gleim #: 9.2.52 -- Source: Publisher

- Answer (A) is incorrect because The components of audit risk are inherent risk, control risk, and detection risk.
- Answer (B) is incorrect because The components of audit risk are inherent risk, control risk, and detection risk.
- Answer (C) is incorrect because The components of audit risk are inherent risk, control risk, and detection risk.
- Answer (D) is **correct**. One component of audit risk is detection risk, which is the risk that the auditor will not detect a material misstatement that exists in an assertion. Detection risk for a substantive test of details has two elements: (1) the risk that analytical procedures and other relevant substantive tests will fail to detect misstatements at least equal to tolerable misstatement and (2) the allowable risk of incorrect acceptance for the substantive test of details. The auditor assesses control risk (the second component) when considering the client's internal control. This assessment, the assessment of inherent risk, and the level to which the auditor wishes to restrict overall audit risk are the factors that the auditor uses to determine the acceptable level of detection risk.

[78] Gleim #: 9.2.71 -- Source: CIA 1193 I-12

- Answer (A) is incorrect because A receiving function can be effective within normal organizational parameters.
- Answer (B) is **correct**. The receiving department should maintain a file of properly authorized purchase orders so that unauthorized shipments are not accepted. However, prices and quantities should be omitted from these copies of the orders. If the receiving clerk does not know the quantity ordered, an independent count can be ensured.
- Answer (C) is incorrect because The receiving department's copy should omit prices and quantities.
- Answer (D) is incorrect because More than the warehouse manager's approval is needed.

[79] Gleim #: 9.2.36 -- Source: CIA 1187 I-12

- Answer (A) is incorrect because An audit would eventually uncover an outright theft assuming no alteration of the asset records.
- Answer (B) is incorrect because The bank maintains a record of visits.
- Answer (C) is **correct**. The bank should maintain a record, which can be inspected by company personnel, of all safe-deposit box visits. Access should be limited to authorized officers. Firms typically require the presence of two authorized persons for access to the box. This precaution provides supervisory control over, for example, the temporary removal of the securities to serve as a pledge for a loan (hypothecation of securities).
- Answer (D) is incorrect because Obtaining a fidelity bond is contingent upon the character of the employee, not the presence of a specific control.

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[80] Gleim #: 9.4.138 -- Source: CIA 593 I-5

- Answer (A) is incorrect because The establishment of an audit committee does not ensure the status of the IAA without its involvement in matters such as acceptance of the charter.
- Answer (B) is incorrect because Adoption of policies for the functioning of the IAA does not protect its status.
- Answer (C) is incorrect because Written policies and procedures serve to guide the internal auditing staff but have little effect on management.
- Answer (D) is **correct**. The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the board (Standard 1000). The charter should establish the IAA's position within the organization; authorize access to records, personnel, and physical properties relevant to the performance of engagements; and define the scope of internal audit activities (PA 1000-1). Approval of the charter by the board protects the IAA from management actions that could weaken its status.

[81] Gleim #: 9.1.16 -- Source: CIA 1190 II-7

- Answer (A) is incorrect because This reporting relationship is a strength. It prevents the information systems operation from being dominated by a user.
- Answer (B) is incorrect because It is a normal and appropriate reporting relationship.
- Answer (C) is incorrect because It is a normal and appropriate reporting relationship.
- Answer (D) is **correct**. The audit committee has a control function because of its oversight of internal as well as external auditing. It should be made up of directors who are independent of management. The authority and independence of the audit committee strengthen the position of the internal audit activity. The board should concur in the appointment or removal of the chief audit executive, who should have direct, regular communication with the board.

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[82] Gleim #: 9.4.149 -- Source: CIA 592 II-3

- Answer (A) is **correct**. In coordinating the work of internal auditors with the work of external auditors, the CAE should ensure that work to be performed by internal auditors does not duplicate the work of external auditors that can be relied upon for purposes of internal auditing coverage. To the extent that professional and organizational reporting responsibilities allow, internal auditors should perform services in a manner that allows for maximum coordination and efficiency (PA 2050-1).
- Answer (B) is incorrect because External auditing work is conducted in accordance with auditing standards generally accepted in the host country.
- Answer (C) is incorrect because Internal auditing encompasses both financial and operational objectives and activities. Thus, internal auditing coverage could also be provided by external audit work that included primarily financial objectives and activities.
- Answer (D) is incorrect because Duplication of effort may result if the external audit is performed after the internal auditing engagement.

[83] Gleim #: 9.4.147 -- Source: CIA 1196 III-35

- Answer (A) is incorrect because Coordination between internal and external auditors involves, among other things, (1) sufficient meetings to ensure coordination of work and efficient and timely completion of activities, and to determine whether observations and recommendations from work performed to date require that the scope of planned work be adjusted; (2) access to each other's work programs and working papers; (3) exchange of internal audit communications and external auditors' management letters; and (4) common understanding of techniques, methods, and terminology.
- Answer (B) is incorrect because Coordination between internal and external auditors involves, among other things, (1) sufficient meetings to ensure coordination of work and efficient and timely completion of activities, and to determine whether observations and recommendations from work performed to date require that the scope of planned work be adjusted; (2) access to each other's work programs and working papers; (3) exchange of internal audit communications and external auditors' management letters; and (4) common understanding of techniques, methods, and terminology.
- Answer (C) is incorrect because Coordination between internal and external auditors involves, among other things, (1) sufficient meetings to ensure coordination of work and efficient and timely completion of activities, and to determine whether observations and recommendations from work performed to date require that the scope of planned work be adjusted; (2) access to each other's work programs and working papers; (3) exchange of internal audit communications and external auditors' management letters; and (4) common understanding of techniques, methods, and terminology.
- Answer (D) is **correct**. Oversight of the work of the independent outside auditor, including coordination with the IAA, is generally the responsibility of the board. Actual coordination should be the responsibility of the CAE. However, the board in the exercise of its oversight role may request that the CAE assess the performance of the external auditors. Ordinarily, this assessment is made in the context of the CAE's function of coordinating internal and external auditing activities (PA 2050-1).

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[84] Gleim #: 9.4.131 -- Source: CIA 591 II-2

- Answer (A) is incorrect because Evaluating controls over compliance with laws, regulations, and contracts is within the scope of internal auditing (Standard 2120.A1).
- Answer (B) is incorrect because Ascertaining the extent to which operating and program objectives and goals have been established is within the scope of internal auditing (Standard 2120.A2).
- Answer (C) is **correct**. Safeguarding assets is an operational activity and is therefore beyond the scope of the IAA, which evaluates and contributes to the improvement of risk management, control, and governance processes. However, internal auditors should evaluate risk exposures relating to governance, operations, and information systems regarding the safeguarding of assets. Based on the risk assessment, they should evaluate the adequacy and effectiveness of controls encompassing governance, operations, and information systems. This evaluation extends to safeguarding of assets (Standards 2110.A2 and 2120.A1).
- Answer (D) is incorrect because Internal auditors should ascertain the extent to which results are consistent with established goals and objectives (Standard 2120.A3).

[85] Gleim #: 9.4.175 -- Source: CIA 593 I-37

- Answer (A) is incorrect because Agreement between the records and the items being audited is a primary concern in a financial audit.
- Answer (B) is incorrect because An operational audit report should address the efficiency and effectiveness of the function being audited, not reporting in the financial statements.
- Answer (C) is incorrect because Valuation is an issue in a financial audit.
- Answer (D) is **correct**. Operational auditing concerns compliance with policies, plans, etc.; economical and efficient use of resources; and accomplishment of established goals and objectives. Thus, an operational audit report should inform management about the efficiency and effectiveness of the given operations and should discuss findings requiring corrective action.

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[86] Gleim #: 9.1.18 -- Source: CIA 1191 I-4

- Answer (A) is **correct**. Independence is enhanced when the board concurs in the appointment or removal of the CAE. The audit committee is a subcommittee of outside directors who are independent of management. The term “board” includes the audit committee.
- Answer (B) is incorrect because Development of the annual engagement work schedule is an operational function of the CAE and the IAA staff. The annual engagement work schedule, staffing plan, and financial budget are submitted to senior management and the board.
- Answer (C) is incorrect because The determination of engagement observations appropriate for specific engagement communications is a field operation of the IAA staff.
- Answer (D) is incorrect because Approval of engagement work programs is a technical responsibility of the IAA staff.

[87] Gleim #: 9.4.179 -- Source: CIA 1187 I-41

- Answer (A) is **correct**. Audit reports document the conclusions and final work product of the internal auditor. Accordingly, they record findings and recommend courses of action.
- Answer (B) is incorrect because Any audit report provides an opportunity for auditee responses.
- Answer (C) is incorrect because The internal auditor has no line authority and should not direct corrective action.
- Answer (D) is incorrect because Providing a basis for the external auditor’s review is only a secondary purpose of formal reports.

[88] Gleim #: 9.4.181 -- Source: CMA 0205 1-34

- Answer (A) is incorrect because An information system audit involves examining the specific controls over information systems.
- Answer (B) is incorrect because A financial audit involves assessing the fair presentation of financial statements in accordance with U.S. GAAP.
- Answer (C) is incorrect because A compliance audit involves assessing the everyday functioning of internal controls.
- Answer (D) is **correct**. An operational audit is a thorough examination of a department, division, function, etc. Its purpose is to appraise managerial organization, performance, and techniques. An operational audit attempts to determine the extent to which organizational objectives have been achieved.

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[89] Gleim #: 10.1.21 -- Source: CMA 685 5-28

- Answer (A) is **correct**. Special programs validate (edit) input data for completeness, validity, and accuracy. The edited data are then used in processing. The errors, omissions, or exceptions are printed on a report.
- Answer (B) is incorrect because An ITF uses simulated transactions to audit the processing system.
- Answer (C) is incorrect because The operating system controls the overall functioning of the CPU and its online peripheral equipment.
- Answer (D) is incorrect because A compiler translates source programs written in a higher level language into machine language.

[90] Gleim #: 9.2.92 -- Source: CMA 690 5-3

- Answer (A) is incorrect because Accounts Receivable does not need a copy.
- Answer (B) is incorrect because Stores Control does not need to know that a purchase has been initiated.
- Answer (C) is **correct**. The Accounts Payable Department should receive a copy of the purchase order for internal control purposes to ensure that all invoices paid are for properly authorized items. The Receiving Department should receive a copy (with the quantity omitted to encourage an honest count) so that its employees will know that incoming shipments were authorized and should be accepted. In addition, the department issuing the purchasing requisition (the Inventory Control Department) should receive a copy as a notification that the order has been placed.
- Answer (D) is incorrect because Production Planning does not need a copy.

[91] Gleim #: 10.2.37 -- Source: Publisher

- Answer (A) is incorrect because A firewall cannot adequately protect against a Trojan horse (a program, such as a game, that appears friendly but that actually contains applications destructive to the computer system) or any other program that can be executed in the system by an internal user.
- Answer (B) is incorrect because A firewall cannot adequately protect a system against computer viruses.
- Answer (C) is **correct**. A firewall is a device that separates two networks and prevents passage of specific types of network traffic while maintaining a connection between the networks. Generally, an Internet firewall is designed to protect a system from unauthenticated logins from outside users, although it may provide several other features as well.
- Answer (D) is incorrect because Industrial spies need not leak information through the firewall. A telephone or floppy disk are much more common means of sharing confidential information.

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[92] Gleim #: 10.1.14 -- Source: CMA 687 5-4

- Answer (A) is incorrect because A redundancy check requires transmission of additional data items to check a previously received data item; for example, a few letters of a customer's name could be matched against the name associated with the customer number.
- Answer (B) is **correct**. All of the terms listed refer to program controls to prescreen or edit data prior to processing, but the sequence check is most likely to be used only in batch processing. A sequence check tests to determine that records are in proper order. For example, a payroll input file would be sorted into Social Security number order. A sequence check could then be performed to verify record order. This control would not apply in a real-time operation because records would not be processed sequentially.
- Answer (C) is incorrect because Reasonableness tests verify that the amounts of input or output fall within predetermined limits.
- Answer (D) is incorrect because Sign checks test data for the appropriate arithmetic sign. For instance, hours worked in a payroll should always be a positive number.

[93] Gleim #: 9.2.75 -- Source: CMA 690 3-26

- Answer (A) is **correct**. The payroll department is responsible for assembling payroll information (record keeping). The personnel department is responsible for authorizing employee transactions such as hiring, firing, and changes in pay rates and deductions. Segregating the recording and authorization functions helps prevent fraud.
- Answer (B) is incorrect because Prenumbering of payroll checks is a control procedure to ensure the completeness of accounting records, but it will not prevent fictitious or previously terminated employees from receiving checks.
- Answer (C) is incorrect because Reconciling the accounting records to the bank statement is a test of the accuracy of the cash balance.
- Answer (D) is incorrect because A test for mathematical accuracy does not prevent or detect fictitious transactions.

[94] Gleim #: 10.2.61 -- Source: CMA 1287 5-10

- Answer (A) is **correct**. This flowcharting symbol indicates a manual operation or offline process. Because the input to this operation consists of an adding machine tape containing batch totals and a document containing summary information about the accounts receivable update and an error listing, the operation apparently involves comparing these items.
- Answer (B) is incorrect because The flowchart concerns daily receipts, not the reconciliation of cash balances.
- Answer (C) is incorrect because No filing symbol is given.
- Answer (D) is incorrect because Symbol D indicates a comparison, not output in the form of a report.

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[95] Gleim #: 9.2.40 -- Source: CMA 689 3-16

- Answer (A) is incorrect because Timekeeping should be independent of asset custody and employee records.
- Answer (B) is incorrect because This analytical procedure may detect a discrepancy.
- Answer (C) is incorrect because Periodic rotation of payroll personnel inhibits the perpetration and concealment of fraud.
- Answer (D) is **correct**. Paychecks should not be distributed by supervisors because an unscrupulous person could terminate an employee and fail to report the termination. The supervisor could then clock in and out for the employee and keep the paycheck. A person unrelated to either payroll record keeping or the operating department should distribute checks.

[96] Gleim #: 9.4.170 -- Source: CIA 1190 II-11

- Answer (A) is incorrect because A compliance engagement is a review of both financial and operating controls and transactions to determine conformity with established standards. It tests adherence to management's policies, procedures, and plans designed to ensure certain actions.
- Answer (B) is **correct**. According to *Sawyer's Internal Auditing* (The IIA 1996, p. 4), an operational engagement involves a "comprehensive review of the varied functions within an enterprise to appraise the efficiency and economy of operations and the effectiveness with which those functions achieve their objectives."
- Answer (C) is incorrect because A full-scale engagement relating to the manufacturing operation has financial, compliance, and operational aspects. It exceeds the chief executive officer's request.
- Answer (D) is incorrect because A financial engagement involves the analysis of the economic activity of an entity as measured and reported by accounting methods.

[97] Gleim #: 9.2.44 -- Source: CIA 1192 II-16

- Answer (A) is incorrect because Review of records every 6 months does not enable the organization to detect receipt of inappropriate amounts by an agent or deter relationships that could lead to such activity.
- Answer (B) is incorrect because Value-per-unit-of-cost reviews could be helpful in assuring value received for price paid but do not directly focus on receipt of inappropriate benefits by purchasing agents.
- Answer (C) is incorrect because Confirmation does not enable internal auditors to detect inappropriate benefits received by purchasing agents or deter long-term relationships.
- Answer (D) is **correct**. The risk of favoritism is increased when buyers have long-term relationships with specific vendors. Periodic rotation of buyer assignments will limit the opportunity to show favoritism. This risk is also reduced if buyers are required to take vacations.

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[98] Gleim #: 9.3.115 -- Source: Publisher

- Answer (A) is incorrect because This is a provision of the Act.
- Answer (B) is **correct**. The Foreign Corrupt Practices Act of 1977 prohibits bribes to foreign officials and requires firms to have adequate systems of internal control. Violation of the Act subjects individual managers to fines and/or imprisonment. The Act does not specifically require the establishment of audit committees, but many firms have established audit committees as one means of dealing with the internal control provisions of the Act.
- Answer (C) is incorrect because This is a provision of the Act.
- Answer (D) is incorrect because This is a provision of the Act.

[99] Gleim #: 9.2.68 -- Source: CIA 1189 I-9

- Answer (A) is **correct**. The sequential numbering of documents provides a standard control over transactions. The numerical sequence should be accounted for by an independent party. A major objective is to detect unrecorded and unauthorized transactions.
- Answer (B) is incorrect because This check would not prevent or detect unrecorded and unauthorized transactions.
- Answer (C) is incorrect because It states an analytical procedure, not a preventive control.
- Answer (D) is incorrect because Credit approval does not ensure billing.

[100] Gleim #: 10.1.12 -- Source: CMA 1290 4-22

- Answer (A) is incorrect because Combining the duties of management and users affords less opportunity to commit irregularities than combining programming and computer operation, although separation of these duties might enhance control.
- Answer (B) is incorrect because Combining the duties of project leaders and programmers affords less opportunity to commit irregularities than combining programming and computer operation, although separation of these duties might enhance control.
- Answer (C) is incorrect because Combining the duties of programmers and systems analysts affords less opportunity to commit irregularities than combining programming and computer operation, although separation of these duties might enhance control.
- Answer (D) is **correct**. The computer operator should not be assigned programming responsibility and have the opportunity to make changes in programs as (s)he operates the equipment. In general, achieving control through separation of duties in the EDP department requires that EDP personnel have no access to assets and that access to computer operation, possession of files, and development of program logic be strictly separated.

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[101] Gleim #: 9.2.96 -- Source: Publisher

- Answer (A) is incorrect because Internal control can provide reasonable assurance regarding compliance with applicable laws and regulations.
- Answer (B) is **correct**. Internal control is a process designed to provide reasonable assurance regarding the achievement of organizational objectives. Because of inherent limitations, however, no system can be designed to eliminate all fraud.
- Answer (C) is incorrect because Internal control can provide reasonable assurance regarding effectiveness and efficiency of operations.
- Answer (D) is incorrect because Internal control can provide reasonable assurance regarding reliability of financial reporting.

[102] Gleim #: 9.2.39 -- Source: CMA 1288 3-23

- Answer (A) is incorrect because There is no conflict between writing off bad debts (accounts receivable) and reconciling accounts payable, which are liabilities.
- Answer (B) is **correct**. Recording of cash establishes accountability for assets. The bank reconciliation compares that recorded accountability with actual assets. The recording of cash receipts and preparation of bank reconciliations should therefore be performed by different individuals since the preparer of a reconciliation could conceal a cash shortage. For example, if a cashier both prepares the bank deposit and performs the reconciliation, (s)he could embezzle cash and conceal the theft by falsifying the reconciliation.
- Answer (C) is incorrect because Distribution of payroll checks and approval of sales returns are independent functions. People who perform such disparate tasks are unlikely to be able to perpetrate and conceal a fraud. In fact, some companies use personnel from an independent function to distribute payroll checks.
- Answer (D) is incorrect because Posting both ledgers would cause no conflict as long as the individual involved did not have access to the actual cash. If a person has access to records but not the assets, there is no danger of embezzlement without collusion.

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[103] Gleim #: 9.2.74 -- Source: CMA 689 3-15

- Answer (A) is **correct**. Internal control over accounts receivable begins with a proper separation of duties. Hence, the cashier, who performs an asset custody function, should not be involved in record keeping. Accounts should be periodically confirmed by an auditor, and delinquent accounts should be reviewed by the head of accounts receivable and the credit manager. Customer statements should be mailed monthly by the accounts receivable department without allowing access to the statements by employees of the cashier's department. The sales manager should not be the only person to review delinquent accounts because (s)he may have an interest in not declaring an account uncollectible.
- Answer (B) is incorrect because It states an important internal control procedure in the area of accounts receivable.
- Answer (C) is incorrect because It states an important internal control procedure in the area of accounts receivable.
- Answer (D) is incorrect because It states an important internal control procedure in the area of accounts receivable.

[104] Gleim #: 10.2.44 -- Source: CIA 1196 III-40

- Answer (A) is **correct**. The effects of computer viruses range from harmless messages to complete destruction of all data within the system. A symptom of a virus would be the unexplained loss of or change to data.
- Answer (B) is incorrect because Copyright violations represent policy or compliance problems.
- Answer (C) is incorrect because Inadequate back-up, recovery, and contingency plans are operating policy weaknesses.
- Answer (D) is incorrect because Power surges are caused by hardware or power supply problems.

[105] Gleim #: 9.2.91 -- Source: CMA 690 5-1

- Answer (A) is incorrect because Stores Control has custody of materials; it does not maintain inventory records.
- Answer (B) is incorrect because Purchasing places orders that have been initiated and authorized by others.
- Answer (C) is incorrect because The Production Department manufactures goods and obtains materials from Stores Control.
- Answer (D) is **correct**. The Inventory Control Department would be responsible for initiating a purchase. It has access to the inventory records and would therefore know when stocks were getting low.

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[106] Gleim #: 9.1.3 -- Source: CIA 592 II-16

- Answer (A) is **correct**. Reasonable assurance is provided when cost-effective actions are taken to restrict deviations to a tolerable level. This implies, for example, that material errors and improper or illegal acts will be prevented or detected and corrected within a timely period by employees in the normal course of performing their assigned duties. The cost-benefit relationship is considered by management during the design of systems. The potential loss associated with any exposure or risk is weighed against the cost to control it.
- Answer (B) is incorrect because The examination and evaluation of management processes is a function of the internal auditing department.
- Answer (C) is incorrect because The board of directors or a similar body is responsible for the guidance and oversight of management.
- Answer (D) is incorrect because Collusion is an inherent limitation of internal control.

[107] Gleim #: 9.1.15 -- Source: CIA 590 II-5

- Answer (A) is incorrect because Review and approval of engagement work programs is the responsibility of internal auditing supervisors.
- Answer (B) is **correct**. The organizational status of the IAA is enhanced when it has the support of management and of the board. Internal auditors can thereby gain the cooperation of engagement clients and perform their work free from interference.
- Answer (C) is incorrect because Whether the external auditor will make use of the work of internal auditing is not for the audit committee to decide.
- Answer (D) is incorrect because Review and approval of internal auditing engagement communications is the responsibility of the chief audit executive or his/her designee.

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[108] Gleim #: 9.1.4 -- Source: CPA 1194 A-29

- Answer (A) is incorrect because Human resource policies and practices are part of the control environment, but detection risk is not. It is the risk that the audit procedures will fail to detect material misstatements. Thus, detection risk is a function of the effectiveness of the procedures used by the auditor.
- Answer (B) is incorrect because Human resource policies and practices are part of the control environment, but detection risk is not. It is the risk that the audit procedures will fail to detect material misstatements. Thus, detection risk is a function of the effectiveness of the procedures used by the auditor.
- Answer (C) is incorrect because Human resource policies and practices are part of the control environment, but detection risk is not. It is the risk that the audit procedures will fail to detect material misstatements. Thus, detection risk is a function of the effectiveness of the procedures used by the auditor.
- Answer (D) is **correct**. Human resource policies and practices are part of the control environment. They relate to hiring, orientation, training, evaluating, counseling, promoting, compensating, and remedial actions. The control environment is the component that sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for the other components. Detection risk is not part of the control environment. It is the risk that the audit procedures will fail to detect material misstatements. Thus, detection risk is a function of the effectiveness of the procedures used by the auditor.

[109] Gleim #: 9.4.159 -- Source: CIA 591 I-26

- Answer (A) is **correct**. The transaction increases audit risk because a related party is involved, even though the error is small in dollar amount. Related party transactions have a higher inherent risk than ordinary transactions. Given the inverse relationship between audit risk and materiality, the error may be considered material because of qualitative rather than quantitative considerations.
- Answer (B) is incorrect because Even a small error in a related party transaction may indicate significant risk. The auditor is likely to consider the error to be material even if audit risk is low.
- Answer (C) is incorrect because Audit risk and materiality are two separate but overlapping concepts. If audit risk is low, the auditor is less likely to consider the error to be material.
- Answer (D) is incorrect because Additional transactions suggest that audit risk may be high, and the auditor will be likely to consider the error to be material.

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[110] Gleim #: 9.4.139 -- Source: CIA 597 I-52

- Answer (A) is incorrect because Budget restrictions do not constitute an impairment of independence.
- Answer (B) is **correct**. When the IAA or an individual internal auditor is responsible for, or management is considering assigning, an operation that might be the subject of an engagement, independence and objectivity may be impaired. The internal auditor should consider the following factors in assessing the effect on independence and objectivity: The IIA Code of Ethics, the Standards, the expectations of the stakeholders, the IAA's charter, required disclosures, and subsequent coverage of the activities or responsibilities accepted (PA 1130.A1-2).
- Answer (C) is incorrect because An internal auditor may recommend standards of control. However, designing, installing, drafting procedures for, or operating systems might impair objectivity (PA 1130.A1-1).
- Answer (D) is incorrect because An internal auditor may review contracts prior to their execution.

[111] Gleim #: 9.4.164 -- Source: CIA 586 II-8

- Answer (A) is incorrect because The internal auditor's ethical obligations normally do not include reporting fraudulent activity to outside authorities unless senior management does not take appropriate action.
- Answer (B) is incorrect because Management must determine whether an investigation will be carried out.
- Answer (C) is incorrect because The internal auditor should avoid confronting persons suspected of theft or fraud until the appropriate authorities within the organization have been notified and have determined the appropriate action.
- Answer (D) is **correct**. The internal auditor should inform the appropriate authorities within the organization when wrongdoing is suspected, recommend any necessary investigation, and follow up to see that internal audit activity's responsibilities have been met (PA 1210.A2-1). When the CAE's superior is suspected of involvement in fraudulent activities, the appropriate authority within the organization is a level of management higher than the level of fraudulent activity, i.e., the chief executive officer and the audit committee.

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[112] Gleim #: 10.2.47 -- Source: CIA 594 III-29

- Answer (A) is **correct**. The described condition is a symptom of a virus. Many viruses will spread and cause additional damage. Use of an appropriate antivirus program may identify and even eliminate a viral infection. Ways to minimize computer virus risk in a networked system include restricted access, regularly updated passwords, periodic testing of systems with virus detection software, and the use of anti-virus software on all shareware prior to introducing it into the network.
- Answer (B) is incorrect because Rebooting the system may cause the virus to spread and do additional damage.
- Answer (C) is incorrect because Running a different program as a test may cause the virus to spread and do additional damage.
- Answer (D) is incorrect because Backing up hard disk files may cause the virus to spread and do additional damage.

[113] Gleim #: 10.1.24 -- Source: CMA 686 5-14

- Answer (A) is incorrect because Programmers should not have access to operational materials.
- Answer (B) is incorrect because The control group exists to supervise input, processing, and output.
- Answer (C) is **correct**. Complete, up-to-date documentation of all programs and associated operating procedures is necessary for efficient operation of a computer installation. Maintenance of programs is important to provide for continuity and consistency of data processing services to users. Program documentation (the program run manual) consists of problem statements, systems flowcharts, operating instructions, record lay-outs, program flowcharts, program listings, test data, and approval and change sheets.
- Answer (D) is incorrect because Editing routines check for arithmetic errors prior to processing, and debugging should uncover errors in programs.

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[114] Gleim #: 10.1.31 -- Source: CMA 0205 1-33

- Answer (A) is incorrect because A parity test is a means of ensuring whether the correct number of binary bits has been transmitted.
- Answer (B) is incorrect because A limit test deals with quantified data, such as preventing hours worked in a single week from exceeding 100 without special authorization.
- Answer (C) is incorrect because A record count test is a batch-level control for ensuring that the correct number of records has been processed in a batch.
- Answer (D) is **correct**. In validity tests, values entered into the system are compared against master files of valid data. In this case, a master file of all zip codes recognized in the U.S. is held in memory and each time a clerk enters data in the zip code field, the clerk's entry is compared to the list of valid values. If the zip code entered does not match any entry in the master file, data entry is halted and the clerk is advised to reenter the data.

[115] Gleim #: 9.2.112 -- Source: CMA 1288 3-26

- Answer (A) is incorrect because It is a part of the custodial function, which is the primary responsibility of a cashier.
- Answer (B) is incorrect because It is a part of the custodial function, which is the primary responsibility of a cashier.
- Answer (C) is **correct**. The cashier is an assistant to the treasurer and thus performs an asset custody function. Individuals with custodial functions should not have access to the accounting records. If the cashier were allowed to post the receipts to the accounts receivable subsidiary ledger, an opportunity for embezzlement would arise that could be concealed by falsifying the books.
- Answer (D) is incorrect because It is a part of the custodial function, which is the primary responsibility of a cashier.

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[116] Gleim #: 9.4.150 -- Source: Publisher

- Answer (A) is **correct**. According to Standard 1000.C1, the nature of consulting services should be defined in the charter. Internal auditors have traditionally performed many types of consulting services, including the analysis of controls built into developing systems, analysis of security products, serving on task forces to analyze operations and make recommendations, and so forth. The board (or audit committee) should empower the internal audit activity to perform additional services if they do not represent a conflict of interest or detract from its obligations to the committee. That empowerment should be reflected in the internal audit charter (PA 1000.C1-1).
- Answer (B) is incorrect because Assurance and consulting services are not mutually exclusive. One type of service may be generated from the other.
- Answer (C) is incorrect because A primary internal auditing value is to provide assurance to senior management and audit committee directors. Consulting engagements cannot be performed in a manner that masks information that in the judgment of the chief audit executive (CAE) should be presented to senior executives and board members (PA 1000.C1-1).
- Answer (D) is incorrect because Consulting services do not necessarily impair objectivity. Decisions to implement recommendations made as a result of a consulting service should be made by management. Thus, decision-making by management does not impair the internal auditors' objectivity.

[117] Gleim #: 10.2.45 -- Source: CIA 1196 III-41

- Answer (A) is incorrect because Backing up files does not increase the chances of a virus entering the computer system.
- Answer (B) is incorrect because Original copies of purchased software on hard disk drives should be free of viruses.
- Answer (C) is incorrect because Viruses are spread through the distribution of contaminated programs.
- Answer (D) is **correct**. Viruses are spread through shared data. Downloading public-domain software carries a risk that contaminated data may enter the computer.

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[118] Gleim #: 10.1.27 -- Source: CMA 1294 4-15

- Answer (A) is incorrect because Neither programmers nor project leaders have access both to programs and computers; thus, danger of control breakdowns is minimal.
- Answer (B) is incorrect because Systems analysts are specifically qualified to analyze and design computer systems; the work of the systems analyst is used to guide the work of programmers. The two need to work together.
- Answer (C) is **correct**. Segregation of duties is important in any environment in which control is a concern. In particular, programmers and computer operators should be kept separate because programmers have the ability to modify programs, files, and controls. Thus, they should not be allowed to also operate the computer.
- Answer (D) is incorrect because Neither programmers nor users of computer output have access to the operating computer; thus, danger is minimal.

[119] Gleim #: 9.2.43 -- Source: CIA 592 II-15

- Answer (A) is incorrect because Taking an inventory is a detective, not a preventive, control.
- Answer (B) is incorrect because Insurance provides for indemnification if loss or theft occurs. It reduces financial exposure but does not prevent the actual loss or theft.
- Answer (C) is incorrect because An internal control designed to ensure control over repair work performed has no bearing on the risk of loss.
- Answer (D) is **correct**. Physical control of assets is a preventive control that reduces the likelihood of theft or other loss. Keeping the vehicles at a secure location and restricting access establishes accountability by the custodian and allows for proper authorization of their use.

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[120] Gleim #: 9.4.129 -- Source: CIA 1193 I-1

- Answer (A) is incorrect because Evaluating effectiveness and efficiency is an incomplete description of the scope of work of internal auditing.
- Answer (B) is incorrect because Evaluating compliance is an incomplete description of the scope of work of internal auditing.
- Answer (C) is incorrect because Verifying the existence of assets and reviewing the means of safeguarding assets are not the only functions of internal auditors.
- Answer (D) is **correct**. The IAA evaluates and contributes to the improvement of risk management, control, and governance processes using a systematic and disciplined approach (Standard 2100). According to PA 2100-1, internal auditors evaluate the whole management process of planning, organizing, and directing to determine whether reasonable assurance exists that objectives and goals will be achieved. These evaluations, in the aggregate, provide information to appraise the overall management process. All business systems, processes, operations, functions, and activities within the organization are subject to the internal auditors' evaluations. The comprehensive scope of work of internal auditing should provide reasonable assurance that management's
 - Risk management system is effective.
 - System of internal control is effective and efficient.
 - Governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability.

[121] Gleim #: 10.2.52 -- Source: Publisher

- Answer (A) is incorrect because An IDS is not limited to knowledge-based detection. Knowledge-based detection is based on information about the system's weaknesses and searches for intrusions that take advantage of them.
- Answer (B) is incorrect because An IDS is not limited to behavior-based detection. Behavior-based detection presumes that an attack will cause an observable anomaly. Actual and normal system behavior (a model of expected operations) are compared. A discrepancy results in an alert.
- Answer (C) is incorrect because A host IDS provides maximum protection only when the software is installed on each computer. It may operate in the following ways: The aggressive response is to monitor every call on the operating system and application as it occurs. A less effective method of preventing attacks is analysis of access log files. A host IDS may also identify questionable processes and verify the security of system files.
- Answer (D) is **correct**. A network IDS works by using sensors to examine packets traveling on the network. Each sensor monitors only the segment of the network to which it is attached. A packet is examined if it matches a signature. String signatures (certain strings of text) are potential signs of attack. Port signatures alert the IDS that a point subject to frequent intrusion attempts may be under attack. A header signature is a suspicious combination in a packet header.

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[122] Gleim #: 10.1.33 -- Source: CMA 1289 5-10

- Answer (A) is **correct**. Validity checks, limit checks, field checks, and sign tests are all examples of input controls (input validation routines).
- Answer (B) is incorrect because A control total is a total of one information field.
- Answer (C) is incorrect because A data access validation routine limits access to data.
- Answer (D) is incorrect because A hash total is the summation of an otherwise meaningless control total, such as the total of all invoice numbers. The purpose is to determine whether any data have been lost.

[123] Gleim #: 9.3.121 -- Source: CPA 1183 L-45

- Answer (A) is **correct**. The accounting requirements of the FCPA apply to all companies required to register and report under the Securities Exchange Act of 1934. These companies must maintain books, records, and accounts in reasonable detail that accurately and fairly reflect transactions. The FCPA also requires these companies to maintain a system of internal accounting control that provides certain reasonable assurances, including that corporate assets are not used for bribes.
- Answer (B) is incorrect because The accounting requirements apply only to publicly held companies registered under the 1934 act.
- Answer (C) is incorrect because The accounting requirements apply only to publicly held companies registered under the 1934 act.
- Answer (D) is incorrect because The accounting requirements apply only to publicly held companies registered under the 1934 act.

[124] Gleim #: 9.4.158 -- Source: CIA 597 1-9

- Answer (A) is incorrect because The internal auditor should notify the appropriate authorities within the organization only if (s)he has determined that the indicators of fraud are sufficient to recommend an investigation.
- Answer (B) is incorrect because The internal auditor does not have the authority to consult with external legal counsel.
- Answer (C) is **correct**. An internal auditor's responsibilities for detecting fraud include evaluating fraud indicators and deciding whether any additional action is necessary or whether an investigation should be recommended (PA 1210.A2-1).
- Answer (D) is incorrect because The internal auditor should notify the appropriate authorities within the organization only if (s)he has determined that the indicators of fraud are sufficient to recommend an investigation.

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[125] Gleim #: 10.1.13 -- Source: Publisher

- Answer (A) is **correct**. Input controls provide reasonable assurance that processing has been performed as intended for the particular application. A hash total is an input control. A hast total is a control total without a defined meaning, such as the total of employee numbers or invoice numbers, that is used to verify the completeness of data.
- Answer (B) is incorrect because Dual write routines are an example of a storage control.
- Answer (C) is incorrect because Error listings are an example of an output control.
- Answer (D) is incorrect because Run-to-run control totals are an example of a processing control.

[126] Gleim #: 10.1.2 -- Source: CMA 695 4-22

- Answer (A) is incorrect because Librarians maintain control over documentation, programs, and data files; they should have no access to equipment, but they can assist in data processing operations.
- Answer (B) is incorrect because Programmers usually handle all types of programs.
- Answer (C) is incorrect because A separate information officer outside of the accounting function would not be as critical a separation of duties as that between programmers and processors.
- Answer (D) is **correct**. Separation of duties is a general control that is vital in a computerized environment. Some separation of duties common in noncomputerized environments may not be feasible in a computer environment. However, certain tasks should not be combined. Systems analysts, for example, should be separate from programmers and computer operators. Programmers design, write, test, and document specific programs required by the system developed by the analysts. Both programmers and analysts may be able to modify programs, data files, and controls and should therefore have no access to computer equipment and files or to copies of programs used in production. Operators should not be assigned programming duties or responsibility for systems design and should have no opportunity to make changes in programs and systems.

[127] Gleim #: 10.2.48 -- Source: CIA 1190 III-19

- Answer (A) is incorrect because The programmer would not know the necessary passwords.
- Answer (B) is incorrect because Collusion is less likely than individual wrongdoing.
- Answer (C) is **correct**. Viruses are a form of computer sabotage. They are programs hidden within other programs that have the capacity to duplicate themselves and infect other systems. Sharing of storage media or participation in computer networks creates exposure to viruses. Viruses may result in actions ranging from harmless pranks to erasure of files and programs. A back door is a shortcut created in an operating system that permits a programmer simple access to the system.
- Answer (D) is incorrect because The programmer would most likely be denied access to the center.

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[128] Gleim #: 9.2.33 -- Source: Publisher

- Answer (A) is incorrect because Supervision is a compensating control normally found in a cash sales environment.
- Answer (B) is **correct**. In the usual retail cash sales situation, the sales clerk authorizes and records the transactions and takes custody of assets. However, management ordinarily employs other compensating controls to minimize the effects of the failure to segregate functions. The cash receipts function is closely supervised, cash registers provide limited access to assets, and an internal recording function maintains control over cash receipts.
- Answer (C) is incorrect because Limitation of access to assets is a compensating control normally found in a cash sales environment.
- Answer (D) is incorrect because Competent personnel is a compensating control normally found in a cash sales environment.

[129] Gleim #: 9.4.173 -- Source: CIA 592 II-1

- Answer (A) is incorrect because A financial engagement concerns the safeguarding of assets and the reliability and integrity of information.
- Answer (B) is incorrect because A program-results engagement addresses accomplishment of program objectives.
- Answer (C) is incorrect because A compliance engagement relates to compliance with legal, regulatory, procedural, and other requirements.
- Answer (D) is **correct**. According to *Sawyer's Internal Auditing* (The IIA 2003, p. 30), an operational engagement involves a "comprehensive review of the varied functions within an enterprise to appraise the efficiency and economy of operations and the effectiveness with which those functions achieve their objectives."

[130] Gleim #: 9.1.8 -- Source: CIA 580 IV-21

- Answer (A) is incorrect because A director is not prohibited from entering into a conflicting interest transaction if it is fair to the corporation or if it is approved after required disclosure by a majority of disinterested directors or of shares voted by disinterested parties.
- Answer (B) is incorrect because A director is under a duty to use good business judgment, but (s)he is not responsible for the highest standard of care and skill.
- Answer (C) is incorrect because A director is under no duty to report personal property investments unless they relate to corporate business.
- Answer (D) is **correct**. Corporate directors have a fiduciary duty to provide the corporation with business opportunities that come to them in their positions as directors of the corporation. A director who personally takes such a business opportunity has breached his/her duty.

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[131] Gleim #: 9.4.169 -- Source: CIA 1184 I-14

- Answer (A) is incorrect because A financial engagement entails using financial statements as a starting point.
- Answer (B) is incorrect because The reliability and integrity of financial information are important in operational engagements. Information systems provide data for decision making, control, and compliance with external requirements.
- Answer (C) is incorrect because Analytical skills are necessary in all types of engagements.
- Answer (D) is **correct**. Financial engagements are primarily concerned with forming an opinion on the fairness of the financial statements. Operational engagements evaluate accomplishment of established objectives and goals for operations or programs and economical and efficient use of resources.

[132] Gleim #: 9.2.60 -- Source: CIA 1186 I-7

- Answer (A) is **correct**. The accounts receivable manager has the ability to perpetrate irregularities because (s)he performs incompatible functions. Authorization and recording of transactions should be separate. Thus, someone outside the accounts receivable department should authorize write-offs.
- Answer (B) is incorrect because The procedures regarding credit memoranda are standard controls.
- Answer (C) is incorrect because Monthly aging is appropriate.
- Answer (D) is incorrect because Credit approval is an authorization function that is properly segregated from the record keeping function.

[133] Gleim #: 9.3.118 -- Source: CPA, adapted

- Answer (A) is incorrect because The SEC does not require an audit report in accordance with the FCPA.
- Answer (B) is **correct**. The Sarbanes-Oxley Act requires that the audit committee of a public company hire and pay the external auditors. Such affiliation inhibits management from changing auditors to gain acceptance of a questionable accounting method. Also, a potential successor auditor must inquire of the predecessor auditor before accepting an engagement.
- Answer (C) is incorrect because The Sarbanes-Oxley Act does not restrict who may perform a company's tax work. Other types of engagements, such as the outsourcing of the internal audit function and certain consulting services, are limited.
- Answer (D) is incorrect because Reporting the nature of disagreements with auditors has been a long-time SEC requirement.

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[134] Gleim #: 9.2.82 -- Source: CIA 595 I-14

- Answer (A) is incorrect because Approval of additional purchases by the marketing manager is a preventive control, not a detective control. Moreover, the gross margin evaluation is effective in evaluating the manager but does not address the two major constraints.
- Answer (B) is **correct**. The organization has two scarce resources to allocate: (1) its purchasing budget (constrained by financing ability) and (2) the space available in retail stores. Thus, there is a need for a mechanism to allocate these two scarce resources to maximize the overall return to the organization. Approval of additional purchases by the marketing manager is the proper mechanism.
- Answer (C) is incorrect because Approval of additional purchases by the marketing manager is a preventive control, not a detective control. Moreover, the gross margin evaluation is effective in evaluating the manager but does not address the two major constraints.
- Answer (D) is incorrect because Approval of additional purchases by the marketing manager is a preventive control, not a detective control. Moreover, the gross margin evaluation is effective in evaluating the manager but does not address the two major constraints.

[135] Gleim #: 9.4.155 -- Source: CIA 592 I-18

- Answer (A) is **correct**. Flowcharts are graphical representations of the step-by-step progression of transactions, including document (information) preparation, authorization, flow, storage, etc. Flowcharting allows the internal auditor to analyze a system and to identify the strengths and weaknesses of the purported internal controls and the appropriate areas of audit emphasis.
- Answer (B) is incorrect because A questionnaire approach provides only an agenda for evaluation.
- Answer (C) is incorrect because A matrix (decision table) approach does not provide the visual grasp of the system that a flowchart does.
- Answer (D) is incorrect because A detailed narrative does not provide the means of evaluating complex operations that a flowchart does.

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[136] Gleim #: 9.4.153 -- Source: Publisher

- Answer (A) is incorrect because A compliance attempts to ensure an organization that it is in compliance with related laws and regulations.
- Answer (B) is **correct**. A program-results engagement is intended to obtain information about the costs, outputs, benefits, and effects of a program. It attempts to measure the accomplishment and relative success of the undertaking. Because benefits often cannot be quantified in financial terms, a special concern is the ability to measure effectiveness. Thus, clear definitions of objectives and standards should be provided at the outpost of the program. A program is a funded activity not part of the normal, continuing operations of the organization, such as an expansion or a new information system.
- Answer (C) is incorrect because A process engagement does not attempt to measure anything. Its focus is on operations and how effectively and efficiently the organizational units affected will cooperate.
- Answer (D) is incorrect because A privacy engagement does not attempt to measure anything; it addresses the security of personal information.

[137] Gleim #: 9.4.148 -- Source: CIA 594 III-90

- Answer (A) is incorrect because Increasing liability makes external auditors less likely to determine that the work of the internal auditors has an effect on the external audit procedures.
- Answer (B) is **correct**. An external auditor may decide that the internal auditors' work will have an effect on audit procedures if (1) that work is relevant, (2) it is efficient to consider how the work may affect the audit, and (3) the external auditor determines that the internal auditors are sufficiently competent and objective. Hence, internal auditors may be viewed as partners in the audit because of their increasing professionalism. Moreover, the evolving economics of external auditing creates an imperative to control audit fees by eliminating duplication of effort and monitoring more closely the hours worked by external auditors.
- Answer (C) is incorrect because The use of computerized accounting systems has no significant effect on the relative roles of external and internal auditors.
- Answer (D) is incorrect because The globalization of audit entities has no significant effect on the relative roles of external and internal auditors.

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[138] Gleim #: 9.4.141 -- Source: Publisher

- Answer (A) is incorrect because Senior management is responsible for overseeing the establishment of internal control processes.
- Answer (B) is incorrect because The challenge for the internal audit activity is to evaluate the effectiveness of the organization's system of controls based on the aggregation of many individual assessments. Those assessments are largely gained from internal auditing engagements, management's self assessments, and external auditor's work (PA 2120.A1-1).
- Answer (C) is **correct**. Senior management and the audit committee normally expect that the chief audit executive will perform sufficient engagement work and gather other available information during the year so as to form a judgment about the adequacy and effectiveness of the control processes. The chief audit executive should communicate that overall judgment about the organization's system of controls to senior management and the audit committee. A growing number of organizations have included a management's report on the system of internal controls in their annual or periodic reports to external stakeholders. The report of the chief audit executive should therefore be presented, usually once a year, to senior management and the audit committee (PA 2120.A1-1).
- Answer (D) is incorrect because The board is responsible for establishing and maintaining the organization's governance processes.

[139] Gleim #: 9.4.154 -- Source: Publisher

- Answer (A) is incorrect because It is an issue that the internal auditor should address when performing a privacy engagement.
- Answer (B) is incorrect because It is an issue that the internal auditor should address when performing a privacy engagement.
- Answer (C) is **correct**. Six issues should be addressed by the internal auditor when performing a privacy engagement: (1) compliance with governmental mandates, (2) protection of personal information from both unauthorized intrusion and misuse by those who have authorized access, (3) balancing of privacy with the need to allow appropriate and prompt availability of personal information to legitimate users, (4) documentation of compliance with privacy and other legal requirements, (5) whether the benefits of security arrangements exceed the costs, and (6) the ethical imperative for the internal auditors to maintain the confidentiality of private information. Privacy engagements address the security of personal information, not its accuracy.
- Answer (D) is incorrect because It is an issue that the internal auditor should address when performing a privacy engagement.

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[140] Gleim #: 10.1.4 -- Source: CMA 693 4-6

- Answer (A) is incorrect because Output controls are insufficient to assure completeness and accuracy of output. Input controls are also needed.
- Answer (B) is **correct**. Input controls provide reasonable assurance that data received for processing have been properly authorized, converted into machine-sensible form, and identified, and that data have not been lost, suppressed, added, duplicated, or otherwise improperly changed. Input controls also relate to rejections, correction, and resubmission of data that were initially incorrect. Output controls provide assurance that the processing result is accurate and that only authorized personnel receive the output.
- Answer (C) is incorrect because General, transaction, and print-out controls do not assure accuracy of inputs.
- Answer (D) is incorrect because An echo check, which is an input control over transmission along communications lines, does not assure proper authorization of data. Neither do the other techniques assure completeness of data.

[141] Gleim #: 9.2.67 -- Source: CIA 591 I-23

- Answer (A) is **correct**. Review and approval of time cards by line supervisors is appropriate because they should know whether work has been performed. Also, because they do not distribute paychecks, they are not in a position to divert falsely authorized checks.
- Answer (B) is incorrect because Returning undelivered checks to the cashier provides no evidence regarding the validity of the amounts of checks.
- Answer (C) is incorrect because Witnessing a payroll distribution does not ensure that the amounts paid are authorized.
- Answer (D) is incorrect because Employees may be properly included on payroll, but the amounts paid may be unauthorized.

[142] Gleim #: 9.1.11 -- Source: CIA 1187 I-4

- Answer (A) is incorrect because Reviewing the IAA's engagement work schedule requires detailed technical ability.
- Answer (B) is incorrect because Reviewing the procurement function of the organization requires detailed technical ability.
- Answer (C) is **correct**. The audit committee consists of outside members of the board of directors (who should be independent of management). Regular communication with this committee helps assure independence and provides a means for the directors and the IAA to keep each other informed. The CAE should communicate the IAA's plans and resource requirements to senior management and the board for review and approval. Moreover, the CAE should submit to senior management for approval, and to the board for its information, a summary of the IAA's work schedule, staffing plan, and financial budget.
- Answer (D) is incorrect because The ideal arrangement is to send all engagement communications to the audit committee.

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[143] Gleim #: 10.1.8 -- Source: CMA 1287 5-16

- Answer (A) is incorrect because A limit or reasonableness test checks the values of data items against established limits.
- Answer (B) is incorrect because A batch total is a total of one information field (such as sales on invoices) for all records in a batch.
- Answer (C) is **correct**. A completeness test checks that all data elements are entered before processing. An interactive system can be programmed to notify the user to enter the number before accepting the receiving report.
- Answer (D) is incorrect because A sequence check tests for the ordering, not omission, of records.

[144] Gleim #: 10.1.34 -- Source: CMA 1284 5-27

- Answer (A) is **correct**. Editing (validation) of data should produce a cumulative error listing that includes not only errors found in the current processing run but also uncorrected errors from earlier runs. Each error should be identified and described, and the date and time of detection should be given. Sometimes, the erroneous transactions may need to be recorded in a suspense file. This process is the basis for developing appropriate reports.
- Answer (B) is incorrect because An audit trail consists of much more than an error listing.
- Answer (C) is incorrect because The amount of work needed to correct errors is not affected by the means by which errors are detected and recorded.
- Answer (D) is incorrect because Validation of data is not dependent upon whether an error log is maintained manually or on the computer.

[145] Gleim #: 9.1.14 -- Source: CIA 1191 II-4

- Answer (A) is incorrect because The vice president of the local bank used by the organization is an external party who is usually independent of the organization's internal operations.
- Answer (B) is incorrect because A retired executive of a firm that had been associated with the organization is an external party who is usually independent of the organization's internal operations.
- Answer (C) is incorrect because An academic specializing in business administration is an external party who is usually independent of the organization's internal operations.
- Answer (D) is **correct**. The audit committee consists of outside directors who are independent of management. Its purpose is to help keep external and internal auditors independent of management and to assure that the directors are exercising due care. This committee selects the external auditors, reviews their overall audit plan, examines the results of external and internal auditing engagements, meets regularly with the chief audit executive, and reviews the internal audit activity's engagement work schedule, staffing plan, and financial budget. Engagements may be performed in the vice president's area of responsibility. Thus, (s)he is not independent of the IAA. The vice president is also not an outside director.

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[146] Gleim #: 9.2.111 -- Source: CMA 690 3-27

- Answer (A) is **correct**. A control total is an application control that may consist of a count of the number of records processed at different stages of the operation. Comparison of the counts indicates whether all records have been processed or some have been added. A control total might also consist of a total of one information field for all records processed, such as the total sales dollars for a batch of sales invoices. A limit or reasonableness check tests whether the value of a field falls outside a prescribed range. The range may be stated in terms of an upper limit, lower limit, or both. The loss, addition, etc., of data may result in an unreasonable value. A sequence test verifies the ordering of records and may therefore detect various anomalies.
- Answer (B) is incorrect because Authorization and approval by users and review by control groups are controls that do not function during processing.
- Answer (C) is incorrect because Review by control groups is a control that does not function during processing.
- Answer (D) is incorrect because Use of internal and external labels is an organizational, not a processing, control. External labels allow the computer operator to determine whether the correct file has been selected for an application. External labels are gummed-paper labels attached to a tape reel or other storage medium that identify the file. Internal labels perform the same function through the use of machine-readable identification in the first record in a file.

[147] Gleim #: 9.4.178 -- Source: CIA 589 II-41

- Answer (A) is incorrect because The advertising manager cannot take corrective action.
- Answer (B) is **correct**. According to SIAS 2, “Audit reports should be distributed to those members of the organization who are able to ensure that audit results are given due consideration. This means that the report should go to those who are in a position to take corrective action or to ensure that corrective action is taken.” As the head of the audited unit, the marketing director is in a position to take corrective action.
- Answer (C) is incorrect because The treasurer cannot take corrective action.
- Answer (D) is incorrect because The sales representative cannot take corrective action.

[148] Gleim #: 10.2.62 -- Source: CMA 1287 5-11

- Answer (A) is incorrect because The cash projection file was not used for the daily accounts receivable run.
- Answer (B) is **correct**. The flowcharting figure at symbol E indicates magnetic disk storage. Because it is an input and output for the daily computer processing of accounts receivable, it must be the accounts receivable master file.
- Answer (C) is incorrect because The remittance advice master file was not used for the daily accounts receivable run.
- Answer (D) is incorrect because Bad debts are not a part of processing daily receipts.

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[149] Gleim #: 9.2.80 -- Source: CIA 1194 I-45

- Answer (A) is incorrect because Operators could give competitors notice of the promotional price whether or not they enter the prices into the computer.
- Answer (B) is incorrect because The customers would be charged a higher price unless the operator entered the promotional price.
- Answer (C) is incorrect because Frequent price changes would not overload an order entry system. Each item needs a price, whether it is the higher price or the promotional price.
- Answer (D) is **correct**. Entering price changes into the computer system should be a centralized duty. Permitting operators to enter the promotional prices creates an opportunity for collusion to sell goods at unauthorized prices to outside accomplices or, at least, makes errors more likely.

[150] Gleim #: 10.1.1 -- Source: Publisher

- Answer (A) is incorrect because Data theft is a threat to all systems.
- Answer (B) is incorrect because A Trojan horse is a destructive program that masquerades as a benign application.
- Answer (C) is **correct**. Trojan horses and worms are threats to computerized systems. Data theft is a threat to any system. Serendipity is essentially a nonsense answer in that the word means the fortunate discovery of something good.
- Answer (D) is incorrect because A worm is a program or algorithm that replicates itself over a computer network and usually performs malicious actions, such as using up the computer's resources and possibly shutting the system down.

[151] Gleim #: 9.4.152 -- Source: Publisher

- Answer (A) is **correct**. Process (functional) engagements follow a process that crosses organizational lines, service units, and geographical locations. They focus on operations and how effectively and efficiently the organizational units affected will cooperate. These engagements tend to be challenging because of their scope and the need to deal with subunits that may have conflicting objectives.
- Answer (B) is incorrect because Compliance engagements are designed to ensure that an organization is in compliance with all laws, regulations, and contracts.
- Answer (C) is incorrect because A program-results engagement obtains information about the costs, outputs, benefits, and effects of a program.
- Answer (D) is incorrect because Privacy engagements address the security of personal information, especially information stored in computerized systems.

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[152] Gleim #: 9.4.124 -- Source: CMA 682 3-17

- Answer (A) is incorrect because Internal auditing evaluates and contributes to the improvement of risk management, control, and governance processes, but it cannot ensure compliance with legal requirements.
- Answer (B) is incorrect because Internal auditing's responsibility with respect to fraud detection is to examine and evaluate the adequacy and effectiveness of internal control.
- Answer (C) is incorrect because Published financial statements are only required to be fairly presented. Internal audit activities cannot ensure correctness.
- Answer (D) is **correct**. According to the definition of internal auditing, "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Thus, it helps the organization to maintain effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement (Standard 2120).

[153] Gleim #: 9.1.19 -- Source: CIA 1193 II-8

- Answer (A) is incorrect because Internal auditing is responsible for reviewing the reliability and integrity of financial information and the means used to collect and report such information.
- Answer (B) is **correct**. According to SIAS 1, "Management plans, organizes, and directs in such a fashion as to provide reasonable assurance that established goals and objectives will be achieved." Also, "Management establishes and maintains an environment that fosters control."
- Answer (C) is incorrect because Management cannot delegate its responsibilities for control to auditors.
- Answer (D) is incorrect because The board has oversight responsibilities but ordinarily does not become involved in the details of operations.

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[154] Gleim #: 9.2.38 -- Source: CMA 1288 3-22

- Answer (A) is incorrect because The sales manager could approve credit to a controlled company and then write off the account as a bad debt. The sales manager's authorization of credit is inconsistent with his/her indirect access to assets.
- Answer (B) is **correct**. Control procedures include segregation of duties to reduce the risk that any person may be able to perpetrate and conceal errors or fraud in the normal course of his/her duties. Different persons should authorize transactions, record transactions, and maintain custody of assets. The treasurer's department should have custody of assets but should not authorize or record transactions. Because the assistant treasurer reports to the treasurer, the treasurer is merely delegating an assigned duty related to asset custody. The use of the check-signing machine does not conflict with any other duty of the assistant treasurer and does not involve authorization or recording of transactions.
- Answer (C) is incorrect because The time clerk could conceal the termination of an employee and retain that employee's paycheck. Record keeping is inconsistent with asset custody.
- Answer (D) is incorrect because Authorization to dispose of damaged goods could be used to cover thefts of inventory for which the warehouse clerk has custodial responsibility. Transaction authorization is inconsistent with asset custody.

[155] Gleim #: 10.2.60 -- Source: CMA 1287 5-9

- Answer (A) is incorrect because The documents should be kept for reference and audit.
- Answer (B) is **correct**. All activity with respect to the paper documents most likely ceases at symbol C. Accordingly, the batched documents must be filed.
- Answer (C) is incorrect because Comparison by the treasurer would be inappropriate. (S)he has custody of cash.
- Answer (D) is incorrect because Internal auditors cannot feasibly review all documents regarding transactions even in an audit.

[156] Gleim #: 9.2.56 -- Source: CIA 1188 II-24

- Answer (A) is incorrect because Proper treasury functions include signing and distributing payroll checks.
- Answer (B) is incorrect because Preparing the payroll and filing payroll tax forms are both functions of the payroll department.
- Answer (C) is incorrect because Hiring employees and authorizing changes to pay rates are both personnel functions.
- Answer (D) is **correct**. Attendance data are accumulated by the timekeeping function. Preparing the payroll is a payroll department function. For control purposes, these two functions should be separated to avoid the perpetration and concealment of fraud.

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[157] Gleim #: 9.2.97 -- Source: CIA 582 I-4

- Answer (A) is incorrect because The potential for management override is a basic limitation of internal control.
- Answer (B) is **correct**. The need for management to spend time on a day-to-day basis reviewing exception reports is reduced when internal control is working effectively. An effective internal control should prevent as well as detect exceptions.
- Answer (C) is incorrect because Some risks are unavoidable and others can be eliminated only at excessive costs.
- Answer (D) is incorrect because Controls should be modified as appropriate for changes in conditions.

[158] Gleim #: 9.2.90 -- Source: CMA 690 5-11

- Answer (A) is incorrect because A packing slip provides such information.
- Answer (B) is incorrect because A credit (debit) memo authorizes a debit to sales returns and a credit to accounts receivable.
- Answer (C) is incorrect because It defines an invoice.
- Answer (D) is **correct**. A bill of lading is both a contract for shipment and a document of title issued (signed) by a common carrier to accept transfer of possession of goods delivered by the seller to the carrier. It can be either negotiable or nonnegotiable.

[159] Gleim #: 9.4.167 -- Source: CIA 594 II-20

- Answer (A) is **correct**. Explicitly seeking a confession may hinder the investigation by alerting the individual that (s)he is under suspicion. Instead, the interviewer should assume the role of one who simply wishes to ascertain the truth. An effective interviewer should prepare questions in advance, be ready for both affirmative and negative replies, and be tactful in handling inconsistencies. Interviewing also requires good listening skills.
- Answer (B) is incorrect because The employer has the right to ask each individual to prepare a written statement irrespective of whether (s)he confesses.
- Answer (C) is incorrect because The best approach is that of the objective, disinterested truth seeker.
- Answer (D) is incorrect because Listening effectively is vital for determining the facts.

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[160] Gleim #: 10.2.39 -- Source: CIA 1196 III-77

- Answer (A) is **correct**. RSA is a potential encryption standard licensed to hardware and software vendors. Public-key encryption requires management of fewer keys for a given client-server environment than does private-key encryption. However, compared with DES, RSA entails more complex computations and therefore has a higher processing overhead. RSA requires two keys: The public key for encrypting messages is widely known, but the private key for decrypting messages is kept secret by the recipient.
- Answer (B) is incorrect because A modem is used for telecommunications.
- Answer (C) is incorrect because A cypher lock is a physical device.
- Answer (D) is incorrect because DES is a shared private-key method developed by the U.S. government. It encrypts data into 64-bit blocks using a 56-bit key. DES requires only a single key for each pair of parties that want to send each other encrypted messages.

[161] Gleim #: 9.2.45 -- Source: CIA 1194 I-26

- Answer (A) is incorrect because Examination of documents is a less effective procedure than actual observation of the inventory.
- Answer (B) is incorrect because Confirming with the custodian the amount of inventory on hand does not verify that the inventory is actually at the warehouse.
- Answer (C) is incorrect because Increasing insurance coverage helps protect the business against losses but does not strengthen internal control over the custody of inventory.
- Answer (D) is **correct**. The most effective control over off-site inventory is the periodic comparison of the recorded accountability with the actual physical inventory.

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[162] Gleim #: 9.1.13 -- Source: CIA 591 II-3

- Answer (A) is incorrect because The work of the internal and external auditors should be coordinated to minimize duplicate efforts. Coordination does not impair independence or reduce public confidence.
- Answer (B) is incorrect because Transience of internal auditors impairs the proficiency of the IAA.
- Answer (C) is incorrect because If illegal activities involve senior management, distribution of engagement communications should be to the audit committee, not the CEO.
- Answer (D) is **correct**. The audit committee consists of outside directors who are independent of management. Its purpose is to help keep external and internal auditors independent of management and to assure that the directors are exercising due care. This committee selects the external auditors, reviews their overall audit plan, examines the results of external and internal auditing engagements, meets regularly with the chief audit executive, and reviews the internal audit activity's engagement work schedule, staffing plan, and financial budget. These functions should increase public confidence that financial statements are fairly presented.

[163] Gleim #: 9.2.77 -- Source: CMA 1288 3-21

- Answer (A) is **correct**. The policies and procedures most likely to be relevant to a financial statement audit pertain to the entity's ability to record, process, summarize, and report financial data consistent with the assertions embodied in the financial statements. Maintenance of control over unused checks is an example of a relevant procedure because the objective is to safeguard cash. The auditor must understand the ICS policies and procedures relevant to the assertions about cash in the financial statements. (S)he must then assess control risk for those assertions; that is, (s)he must evaluate the effectiveness of the ICS in preventing or detecting material misstatements in the assertions.
- Answer (B) is incorrect because It concerns the effectiveness, economy, and efficiency of management decision processes that ordinarily do not relate to an entity's ability to record, process, summarize, and report financial data consistent with financial statement assertions.
- Answer (C) is incorrect because It concerns the effectiveness, economy, and efficiency of management decision processes that ordinarily do not relate to an entity's ability to record, process, summarize, and report financial data consistent with financial statement assertions.
- Answer (D) is incorrect because It concerns the effectiveness, economy, and efficiency of management decision processes that ordinarily do not relate to an entity's ability to record, process, summarize, and report financial data consistent with financial statement assertions.

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[164] Gleim #: 10.2.42 -- Source: CIA 591 III-24

- Answer (A) is incorrect because Comparing software with authorized versions is a detective control used to determine whether only authorized versions of the software are being used on the system.
- Answer (B) is incorrect because Executing virus exterminator programs is a corrective control against a computer virus.
- Answer (C) is incorrect because Preparing and testing a plan for virus recovery is a corrective control against a computer virus.
- Answer (D) is **correct**. Preventive controls are designed to prevent errors before they occur. Detective and corrective controls attempt to identify and correct errors. Preventive controls are usually more cost beneficial than detective or corrective controls. Allowing only authorized software from known sources to be used on the system is a preventive measure. The authorized software from known sources is expected to be free of viruses.

[165] Gleim #: 9.2.99 -- Source: Publisher

- Answer (A) is **correct**. Preventive controls are designed to prevent an error or an irregularity. Detective and corrective controls attempt to identify and correct errors or irregularities that have already occurred. Preventive controls are usually more cost beneficial than detective or corrective controls. Assigning two individuals to open mail is an attempt to prevent misstatement of cash receipts.
- Answer (B) is incorrect because Reconciling the subsidiary file with the master file may detect and lead to the correction of errors, but the control does not prevent errors.
- Answer (C) is incorrect because The use of batch totals may detect a missing or lost document but will not necessarily prevent a document from becoming lost.
- Answer (D) is incorrect because Bank reconciliations disclose errors in the accounts but have no preventive effect.

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[166] Gleim #: 9.4.177 -- Source: CIA 1187 I-44

- Answer (A) is **correct**. The board of directors ordinarily receives summary reports only. Reports should be distributed to all those directly interested in the audit (including the executive to whom the internal auditing function reports), the person to whom replies will be addressed, the person responsible for the activity reviewed, and the person required to take corrective action. External auditors would likewise have an interest in such reports.
- Answer (B) is incorrect because Reports should be distributed to all those directly interested in the audit (including the executive to whom the internal auditing function reports), the person to whom replies will be addressed, the person responsible for the activity reviewed, and the person required to take corrective action. External auditors would likewise have an interest in such reports.
- Answer (C) is incorrect because Reports should be distributed to all those directly interested in the audit (including the executive to whom the internal auditing function reports), the person to whom replies will be addressed, the person responsible for the activity reviewed, and the person required to take corrective action. External auditors would likewise have an interest in such reports.
- Answer (D) is incorrect because Reports should be distributed to all those directly interested in the audit (including the executive to whom the internal auditing function reports), the person to whom replies will be addressed, the person responsible for the activity reviewed, and the person required to take corrective action. External auditors would likewise have an interest in such reports.

[167] Gleim #: 9.4.160 -- Source: CIA 1192 I-3

- Answer (A) is **correct**. SAS 47 (AU 312), *Audit Risk and Materiality in Conducting an Audit*, defines audit risk as the risk that the external auditor may unknowingly fail to modify his/her opinion on financial statements that are materially misstated. Its elements are control risk, inherent risk, and detection risk. For internal auditing, the overall audit risk extends not only to financial statements but also to unwitting failure to uncover material errors or weaknesses in the operations audited. There may be several different reasons for the failure, and these may be in risk categories such as sampling risk, detection risk, or control risk.
- Answer (B) is incorrect because The risk that an auditor might not select documents that are in error as part of the examination is an aspect of sampling risk.
- Answer (C) is incorrect because Lack of competency relates to control risk. It is the failure of a control (internal auditing).
- Answer (D) is incorrect because The risk that an auditor may not be able to properly evaluate an activity because of its poor internal accounting controls is an aspect of control risk.

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[168] Gleim #: 9.2.42 -- Source: CMA 689 3-17

- Answer (A) is incorrect because Invoices should not be approved by purchasing. That is the job of the accounts payable department.
- Answer (B) is incorrect because Prenumbered receiving reports should be issued sequentially. A gap in the sequence may indicate an erroneous or fraudulent transaction.
- Answer (C) is **correct**. A voucher should not be prepared for payment until the vendor's invoice has been matched against the corresponding purchase order and receiving report. This procedure provides assurance that a valid transaction has occurred and that the parties have agreed on the terms, such as price and quantity.
- Answer (D) is incorrect because Annual review of unmatched receiving reports is too infrequent. More frequent attention is necessary to remedy deficiencies in internal control.

[169] Gleim #: 9.1.9 -- Source: CIA 1196 I-26

- Answer (A) is **correct**. The audit committee is a subcommittee made up of outside directors who are independent of management. Its purpose is to help keep external and internal auditors independent of management and to ensure that the directors are exercising due care. However, if independence is impaired by personal and professional friendships, the effectiveness of the audit committee may be limited.
- Answer (B) is incorrect because The compensation audit committee members receive is usually minimal. They should be independent and therefore not limited to an owner's perspective.
- Answer (C) is incorrect because Audit committee members do not need degrees in accounting or auditing to understand engagement communications.
- Answer (D) is incorrect because Although audit committees are concerned with external audits, they also devote attention to the internal audit activity.

[170] Gleim #: 9.3.123 -- Source: CPA 1182 L-30

- Answer (A) is incorrect because Private parties may not bring an action under the FCPA.
- Answer (B) is incorrect because Private parties may not bring an action under the FCPA.
- Answer (C) is incorrect because Although the SEC is empowered to seek injunctions, the Justice Department must seek penalties. Damages are sought by private parties who cannot sue under this statute.
- Answer (D) is **correct**. The SEC may investigate violations of the FCPA, bring civil actions for its enforcement, and recommend that the Justice Department prosecute criminal violations.

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[171] Gleim #: 10.2.68 -- Source: CMA 0205 1-32

- Answer (A) is **correct**. The offsite location where an organization's computer backup files are kept must be temperature- and humidity-controlled and guarded against intrusion just as the main processing center is. Just as important, it must be geographically remote enough from the site of the organization's main operations that it would not be affected by the same natural disaster. It does an organization no good to have sound backup procedures if the files are not accessible or have been destroyed.
- Answer (B) is incorrect because If data will only be used on equipment owned by the organization and will not be transmitted over network lines, leaving it unencrypted will not compromise the soundness of backup-and-rotation procedures.
- Answer (C) is incorrect because Magnetic tape is a sound, though slow, medium for the storage of backup files.
- Answer (D) is incorrect because Inadequate ventilation, while undesirable, is not the most compromising of the choices.

[172] Gleim #: 9.1.17 -- Source: CIA 1189 II-8

- Answer (A) is incorrect because A direct strengthening of controls does not result from this activity.
- Answer (B) is incorrect because A direct strengthening of controls does not result from this activity.
- Answer (C) is incorrect because A direct strengthening of controls does not result from this activity.
- Answer (D) is **correct**. Internal auditors should have the support of senior management and the board (board of directors, audit committee, board of trustees of a nonprofit organization, etc.) to gain the cooperation of engagement clients and perform their work free from interference. Such support promotes independence and ensures broad engagement coverage, adequate consideration of engagement reports, and appropriate action on engagement recommendations. This enhancement of the position of internal auditing in turn strengthens control processes.

[173] Gleim #: 9.2.63 -- Source: CIA 1192 II-17

- Answer (A) is **correct**. Separating cash receipts and record keeping prevents an employee from misappropriating cash and altering the records to conceal the irregularity.
- Answer (B) is incorrect because Cash receipts may be physically safeguarded by such measures as maintaining a secure cash receiving point.
- Answer (C) is incorrect because Initial accountability may be fixed by issuing a source document (a receipt) when the cash is received.
- Answer (D) is incorrect because Separating cash receipts and record keeping does not prevent paying cash disbursements directly from cash receipts.

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[174] Gleim #: 9.4.176 -- Source: CIA 593 I-36

- Answer (A) is incorrect because The treasurer is not responsible for the payroll department.
- Answer (B) is incorrect because The audit committee and the president are not in operational control of the department.
- Answer (C) is incorrect because The audit committee and the president are not in operational control of the department.
- Answer (D) is **correct**. Final engagement communications should be distributed to those members of the organization who are able to ensure that engagement results are given due consideration. This means that the engagement communication should go to those who are in a position to take corrective action or to ensure that corrective action is taken. The final engagement communication should be distributed to the management of the activity under review (PA 2440-1). A communication on control weaknesses in the payroll function should be most useful to the payroll manager, who is in a position to take corrective action.

[175] Gleim #: 9.4.171 -- Source: CIA 1191 I-10

- Answer (A) is incorrect because The internal auditors would be more concerned with legal requirements during a compliance engagement.
- Answer (B) is incorrect because Comparison of staffing levels with industry standards will not test the adequacy of internal controls.
- Answer (C) is **correct**. According to *Sawyer's Internal Auditing* (The IIA 2003, p. 30), an operational engagement involves a "comprehensive review of the varied functions within an enterprise to appraise the efficiency and economy of operations and the effectiveness with which those functions achieve their objectives."
- Answer (D) is incorrect because The internal auditors would not be concerned with payroll processing during this type of testing and evaluation.

[176] Gleim #: 9.3.114 -- Source: Publisher

- Answer (A) is incorrect because The Robinson-Patman Act of 1936 prohibits price discrimination.
- Answer (B) is incorrect because The Federal Ethical Standards Act does not deal with international payments.
- Answer (C) is incorrect because The North American Free Trade Agreement (NAFTA), passed in 1993, provides for free trade among the nations of Canada, Mexico, and the U.S.
- Answer (D) is **correct**. The Foreign Corrupt Practices Act of 1977 prohibits bribes to foreign officials for purposes of obtaining or retaining business. The Act also requires companies to maintain effective systems of internal control.

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[177] Gleim #: 10.2.57 -- Source: CMA 696 4-14

- Answer (A) is **correct**. A disaster recovery plan may include a contract with an external contingency facility vendor. Depending on the organization's needs, the contingency facility may be a hot site or a cold site. A hot site is an arrangement with a vendor for a fully operational facility that is configured to the user's specific needs and that will be available within 24 hours. A hot site may also be fixed or portable and is recommended for an organization that cannot afford for its computer system to be down for even one day.
- Answer (B) is incorrect because A cold site is a cheaper alternative to a hot site. It is a shell facility suitable for the quick installation of computer equipment. It provides a prebuilt, environmentally controlled area with raised flooring, electrical power, and appropriate plumbing.
- Answer (C) is incorrect because A parallel system exists if a company maintains an identical system to the main system.
- Answer (D) is incorrect because An uninterruptible power system is a system that is fully protected by a generator or battery backup to prevent data destruction and downtime from electrical power outages.

[178] Gleim #: 9.2.108 -- Source: CIA 1190 II-9

- Answer (A) is incorrect because This control only helps ensure that raw materials are used in the proper quantities.
- Answer (B) is incorrect because This control does not ensure that raw materials are of sufficient quality.
- Answer (C) is **correct**. Specifications for materials purchased provide an objective means of determining that the materials meet the minimum quality level required for production. Deviations should be authorized at higher levels of management.
- Answer (D) is incorrect because Determination of spoilage occurs after raw materials have been used in production.

[179] Gleim #: 9.2.78 -- Source: CIA 1195 I-67

- Answer (A) is incorrect because Some control procedures may be designed from the bottom up, but the concept of control flows from management down through the organization.
- Answer (B) is incorrect because Control is not limited to processing. Moreover, it is instituted by management, not auditors.
- Answer (C) is incorrect because Termination of employees who perform unsatisfactorily is not a comprehensive definition of control.
- Answer (D) is **correct**. "A control is any action taken by management to enhance the likelihood that established goals and objectives will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. Thus, control is the result of proper planning, organizing, and directing by management" (SIAS 1).

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[180] Gleim #: 9.2.29 -- Source: Publisher

- Answer (A) is incorrect because Whether the susceptibility to loss arises from errors or fraud should have little bearing on the frequency of the comparison.
- Answer (B) is **correct**. Assets should be compared with the recorded accountability as frequently as the nature and amount of the assets require, within the limits of acceptable costs of comparison. The costs of safeguarding assets should not exceed the expected benefits.
- Answer (C) is incorrect because The costs of controls should be considered when making the comparison.
- Answer (D) is incorrect because Management, not the auditor, has responsibility for internal control.

[181] Gleim #: 9.2.104 -- Source: CIA 1189 I-10

- Answer (A) is incorrect because It states a control over the completeness of posting routines, not cash receipts.
- Answer (B) is incorrect because A cash remittance list should be prepared before a separate employee prepares the bank deposit. The list and deposit represent separate records based on independent counts made by different employees.
- Answer (C) is incorrect because The bank reconciliation is a detective, not a preventive, control.
- Answer (D) is **correct**. Sequentially numbered receipts should be issued to determine accountability for cash collected. Such accountability should be established as soon as possible because cash has a high inherent risk. Daily cash receipts should be deposited intact so that receipts and bank deposits can be reconciled. The reconciliation should be performed by someone independent of the cash custody function.

[182] Gleim #: 9.4.174 -- Source: CIA 590 I-2

- Answer (A) is incorrect because This is a function of a financial audit.
- Answer (B) is **correct**. Inventory turnover equals cost of sales divided by average inventory. It is an activity ratio measuring the subsidiary's use of assets to generate revenue and income. A high turnover relative to the industry standard is desirable because it signifies that the firm does not hold excess and therefore unproductive inventory. Efficient management should minimize the sum of investment in inventory, carrying costs, ordering costs, and stockout costs. Operational auditing addresses these efficiency and economy issues as well as accomplishment of objectives and goals and compliance with policies, plans, procedures, laws, and regulations.
- Answer (C) is incorrect because Testing inventory turnover addresses economy and efficiency issues, not compliance.
- Answer (D) is incorrect because This is a function of a financial audit.

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[183] Gleim #: 10.1.10 -- Source: CMA 695 4-30

- Answer (A) is incorrect because Generalized audit software is a set of specialized software routines that are designed to perform specialized audit tests and store audit evidence.
- Answer (B) is incorrect because An ITF includes a dummy entity as well as test data.
- Answer (C) is incorrect because The ITF does not use an audit log.
- Answer (D) is **correct**. An ITF involves the use of a fictitious entity, such as a dummy customer in accounts receivable, against which data transactions are processed. Results are compared with previously determined results. This procedure is used within the framework of regular production, frequently without computer operator knowledge. The use of an ITF enables testing of a system as it routinely operates. The cost of using an ITF is low. The disadvantages of the ITF include the need to later nullify the data put into the system and the possibility of contaminating a database.

[184] Gleim #: 9.4.180 -- Source: CMA 0205 1-30

- Answer (A) is incorrect because Compliance testing involves assessing the everyday functioning of internal controls.
- Answer (B) is incorrect because No type of testing can be sure of detecting instances of collusion.
- Answer (C) is incorrect because The proper statement of financial statement line items is the purview of a financial audit, not a compliance audit.
- Answer (D) is **correct**. Internal auditors should assess compliance in specific areas as part of their role in organizational governance. Compliance testing can be used to determine whether laws and regulations are being adhered to, as well as whether internal controls are functioning as designed.

[185] Gleim #: 9.4.172 -- Source: CIA 1191 I-17

- Answer (A) is incorrect because The comparison will not determine the reasonableness of standard costs.
- Answer (B) is **correct**. A standard cost system costs the product at standard (predetermined) costs and compares expected with actual cost. This comparison allows deviations (variances) from expected results to be identified and investigated. Responsibility can then be pinpointed and corrective action taken. A standard cost system can be used in both job-order and process costing systems.
- Answer (C) is incorrect because The comparison will not determine the effectiveness of the system.
- Answer (D) is incorrect because The comparison will not determine the accuracy of actual costs.

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[186] Gleim #: 9.2.27 -- Source: CPA 1194 A-26

- Answer (A) is incorrect because Management establishes internal control and ultimately has the responsibility to authorize transactions.
- Answer (B) is incorrect because Accountants may record both cash receipts and cash disbursements as long as they do not have custody of the cash.
- Answer (C) is **correct**. Proper segregation of duties and responsibilities reduces the opportunity for an individual to both perpetrate and conceal an error or fraud in the normal course of his/her duties. Hence, different people should be assigned the responsibilities for authorizing transactions, record keeping, and asset custody.
- Answer (D) is incorrect because Accountants typically journalize entries and prepare financial statements.

[187] Gleim #: 9.2.76 -- Source: CMA 1286 3-29

- Answer (A) is incorrect because Approval of time cards is an authorization function that is incompatible with the record keeping function of preparation of paychecks.
- Answer (B) is **correct**. Combining the timekeeping function and the preparation of the payroll journal entries would not be improper because the employee has no access to assets or to employee records in the personnel department. Only through collusion could an embezzlement be perpetrated. Accordingly, the functions of authorization, record keeping, and custodianship remain separate.
- Answer (C) is incorrect because Persons with record keeping but not custody of assets responsibilities should have access to blank checks, while the duty of signing checks (custodianship) should be assigned to persons (e.g., the treasurer) with no record keeping function.
- Answer (D) is incorrect because Payroll preparation and payment to employees should be segregated since they are incompatible record keeping and custodianship functions.

[188] Gleim #: 10.2.59 -- Source: CMA 1287 5-8

- Answer (A) is incorrect because Error correction occurs subsequently except for keying errors.
- Answer (B) is incorrect because Collation has already occurred.
- Answer (C) is incorrect because Batch processing describes the entire system.
- Answer (D) is **correct**. Because the figure below symbol B signifies magnetic tape, the operation represented by symbol B must be keying the information onto the tape. Verifying the keyed data would also occur at this step.

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[189] Gleim #: 10.1.26 -- Source: CMA 687 5-3

- Answer (A) is incorrect because Tracing requires the generation of a complete audit trail and is used in advanced systems. Tracing (tracking) is an audit technique that provides an electronic walk-through of the data processing system.
- Answer (B) is incorrect because Tagging requires the generation of a complete audit trail and is used in advanced systems. Tagging electronically identifies the items to be traced (tracked) by means of a special code. These transactions are processed normally but are monitored to determine if the program logic is handled appropriately.
- Answer (C) is **correct**. An integrated test facility involves the use of a fictitious entity, such as a dummy customer in accounts receivable, against which data transactions are processed. The results are then compared with those previously determined. This technique can be used without computer operator knowledge during routine system operation. The ITF is relatively inexpensive and requires no special processing. It is employed in auditing online, real-time systems.
- Answer (D) is incorrect because Audit software is used with batch processing systems.

[190] Gleim #: 9.2.113 -- Source: CMA 1289 5-1

- Answer (A) is incorrect because A receiving report is needed.
- Answer (B) is incorrect because A purchase order and requisition are also necessary.
- Answer (C) is incorrect because A purchase requisition is also needed.
- Answer (D) is **correct**. Before ordering an item, the purchasing department should have on hand a purchase requisition reflecting an authorized request by a user department. Before a voucher is prepared for paying an invoice, the accounts payable department should have the purchase requisition, a purchase order (to be certain the items were indeed ordered), the vendor's invoice, and a receiving report (to be certain the items were received).

[191] Gleim #: 9.2.85 -- Source: CMA 693 4-4

- Answer (A) is incorrect because Control objectives concerning the entity's ability to record, process, summarize, and report financial data include comparison of recorded accountability with assets at reasonable intervals.
- Answer (B) is incorrect because Control objectives concerning the entity's ability to record, process, summarize, and report financial data include management authorization of access to assets.
- Answer (C) is incorrect because Control objectives concerning the entity's ability to record, process, summarize, and report financial data include proper authorization of transactions.
- Answer (D) is **correct**. An accounting control is concerned with the safeguarding of assets and the reliability of financial records, whereas an operational or administrative control is concerned with operational efficiency and effectiveness. Thus, compliance with methods and procedures ensuring operational efficiency and adherence to managerial policies is an objective of an operational control.

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[192] Gleim #: 9.4.127 -- Source: CIA 595 I-60

- Answer (A) is incorrect because The charter establishes the IAA's position within the organization; authorizes access to records, personnel, and physical properties; and defines the scope of internal audit activities (PA 1000-1).
- Answer (B) is incorrect because The charter establishes the IAA's position within the organization; authorizes access to records, personnel, and physical properties; and defines the scope of internal audit activities (PA 1000-1).
- Answer (C) is **correct**. The independence of the IAA is enhanced when the board concurs in the appointment or removal of the CAE (PA 1110-1), but the length of the CAE's employment is less significant than defining the purpose, authority, and responsibility of the IAA (Standard 1000).
- Answer (D) is incorrect because The charter establishes the IAA's position within the organization; authorizes access to records, personnel, and physical properties; and defines the scope of internal audit activities (PA 1000-1).

[193] Gleim #: 9.2.72 -- Source: CMA 1294 2-30

- Answer (A) is incorrect because The risk that the auditor will not detect a material misstatement that exists in an assertion is detection risk.
- Answer (B) is incorrect because The risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated is audit risk.
- Answer (C) is **correct**. According to AU 312, "Inherent risk is the susceptibility of an assertion to a material misstatement, assuming that there are no related internal control structure policies or procedures. The risk of such misstatement is greater for some assertions and related balances or classes than for others." Unlike detection risk, inherent risk and control risk "are independent of the audit." Furthermore, inherent risk and control risk are inversely related to detection risk. Thus, the lower the inherent risk, the higher the acceptable detection risk.
- Answer (D) is incorrect because The risk that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by the entity's internal control structure policies or procedures is control risk.

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[194] Gleim #: 9.2.28 -- Source: CMA 1283 3-14

- Answer (A) is incorrect because Authorization and asset custody should be separate.
- Answer (B) is **correct**. One person should not be responsible for all phases of a transaction, i.e., for authorization, recording, and custodianship of the related assets. These duties should be performed by separate individuals to reduce the opportunities for any person to be in a position of both perpetrating and concealing errors or fraud in the normal course of his/her duties. For instance, an employee who receives and lists cash receipts should not be responsible for comparing the recorded accountability for cash with existing amounts.
- Answer (C) is incorrect because Authorization and record keeping should be separate.
- Answer (D) is incorrect because Record keeping and asset custody should be separate.

[195] Gleim #: 10.1.11 -- Source: CIA 1196 III-47

- Answer (A) is incorrect because Data fragmentation involves distributing data across different locations so that the fragments from the different locations must be put together to create the complete file.
- Answer (B) is incorrect because Data replication consists of copying all of the data on multiple devices for improved accessibility.
- Answer (C) is incorrect because The snapshot approach does not involve writing of transactions to files.
- Answer (D) is **correct**. Snapshot files are created at a fixed time. Thus, by the time an employee downloads the data subset, it could be obsolete. Snapshot data available to download into spreadsheets may contain old or erroneous information that was later corrected on the main file system.

[196] Gleim #: 10.1.18 -- Source: CMA 1284 5-28

- Answer (A) is incorrect because The auditor must still use audit judgment.
- Answer (B) is incorrect because An auditor must have a knowledge of computer auditing to use a generalized software package.
- Answer (C) is **correct**. The primary use of generalized computer programs is to select and summarize a client's records for additional testing. Generalized audit software packages permit the auditor to audit through the computer, to extract, compare, analyze, and summarize data and generate output as part of the audit program. They allow the auditor to exploit the computer to examine many more records than otherwise possible with far greater speed and accuracy.
- Answer (D) is incorrect because Using a generalized software package is a means of auditing through the computer.

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[197] Gleim #: 9.2.30 -- Source: Publisher

- Answer (A) is incorrect because A question concerning the requirement of an approved purchase requisition and a signed purchase order is appropriate relative to internal control over purchase transactions.
- Answer (B) is incorrect because A question concerning activities of a centralized receiving department is appropriate relative to internal control over purchase transactions.
- Answer (C) is incorrect because A question concerning the use of prenumbered purchase orders and receiving reports is appropriate relative to internal control over purchase transactions.
- Answer (D) is **correct**. The question concerning the daily deposit of intact cash receipts is related to the cash receipts cycle, not the purchases-payables-cash disbursements cycle.

[198] Gleim #: 10.1.22 -- Source: CMA 686 5-13

- Answer (A) is **correct**. Arithmetic proof checks (recalculations) are performed by edit routines before data are processed. A simple example is comparing total debits and total credits.
- Answer (B) is incorrect because It is external to computer processing.
- Answer (C) is incorrect because It is external to computer processing.
- Answer (D) is incorrect because It is external to computer processing.

[199] Gleim #: 9.3.116 -- Source: Publisher

- Answer (A) is incorrect because The auditor is not required to report violations of the Act to the SEC, although a duty to disclose outside the client may exist in some circumstances; e.g., the client's failure to take remedial action regarding an illegal act may constitute a disagreement that it must report on Form 8-K (AU 317).
- Answer (B) is incorrect because The traditional attest function does not involve compliance auditing.
- Answer (C) is incorrect because The FCPA contains no requirement that an auditor express an opinion on internal control.
- Answer (D) is **correct**. Whether a client is in conformity with the Foreign Corrupt Practices Act is a legal question. Auditors cannot be expected to provide clients or users of the financial statements with legal advice. The role of the auditor is to assess control risk in the course of an engagement to attest to the fair presentation of the financial statements.

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[200] Gleim #: 9.1.23 -- Source: Publisher 2009

- Answer (A) is incorrect because The requirement to establish and maintain a system of internal accounting control is a part of the Foreign Corrupt Practices Act.
- Answer (B) is **correct**. In fulfillment of the requirements of PCAOB AS 5, external auditors must express an opinion on a firm's internal control at the same time as the opinion on the financial statements.
- Answer (C) is incorrect because Risk may be measured in quantitative or qualitative terms.
- Answer (D) is incorrect because Addressing internal control as a group of five interrelated components is a feature of the COSO model of internal control.

[201] Gleim #: 9.4.135 -- Source: CMA 1284 3-22

- Answer (A) is **correct**. The external auditor's traditional role is to perform an audit to determine whether the externally reported financial statements are fairly presented. Thus, a financial audit by the IAA is relevant to the traditional external audit because it is an engagement in which the reliability and integrity of financial information is evaluated. Such an engagement is consistent with internal auditing standards. The IAA. According to Standard 2130.A1, the internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems. This evaluation extends to the (1) reliability and integrity of financial and operational information; (2) effectiveness and efficiency of operations; (3) safeguarding of assets; and (4) compliance with laws, regulations, and contracts.
- Answer (B) is incorrect because The existence of a preventive maintenance program is not directly relevant to a financial statement audit.
- Answer (C) is incorrect because Routine supervisory review of production planning is a concern of management but does not directly affect the fair presentation of the financial statements.
- Answer (D) is incorrect because Operational engagements are concerned with operational efficiency and effectiveness, matters that are not the primary focus of an external audit of financial statements.

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[202] Gleim #: 9.2.50 -- Source: Publisher

- Answer (A) is incorrect because The actual levels of inherent risk and control risk are independent of the audit process. Acceptable detection risk is a function of the desired level of overall audit risk and the assessed levels of inherent risk and control risk. Hence, detection risk can be changed at the discretion of the auditor, but inherent risk and control risk cannot. However, the auditor's preliminary judgments about inherent risk and control risk may change as the audit progresses.
- Answer (B) is incorrect because Detection risk is a function of auditing effectiveness (achieving results), not efficiency.
- Answer (C) is **correct**. Inherent risk is the susceptibility of an assertion to material misstatement in the absence of related controls. Some assertions and related balances or classes of transactions have greater inherent risk. Thus, cash has a greater inherent risk than less liquid assets.
- Answer (D) is incorrect because Some control risk will always exist. Internal control has inherent limitations.

[203] Gleim #: 10.2.53 -- Source: CIA 595 I-5

- Answer (A) is incorrect because A program flowchart will identify the specific edit tests implemented.
- Answer (B) is **correct**. Systems flowcharts are overall graphic analyses of the flow of data and the processing steps in an information system. Accordingly, they can be used to represent segregation of duties and the transfer of data between different segments in the organization.
- Answer (C) is incorrect because The flowcharts are usually not kept up to date for changes. Thus, the auditor will have to interview key personnel to determine changes in processing since the flowchart was developed.
- Answer (D) is incorrect because A systems flowchart should show both manual and computer processing.

[204] Gleim #: 9.4.162 -- Source: CIA 1194 I-10

- Answer (A) is incorrect because Interviewing those who have been involved in the control of assets is part of the fraud investigation.
- Answer (B) is **correct**. When an internal auditor suspects wrongdoing, the appropriate authorities within the organization should be informed. The internal auditor may recommend whatever investigation is considered necessary in the circumstances. Thereafter, the auditor should follow up to see that the internal auditing activity's responsibilities have been met (PA 1210.A2-1).
- Answer (C) is incorrect because Determining the loss could alert the perpetrator of the fraud. The perpetrator could then destroy or compromise evidence.
- Answer (D) is incorrect because Identifying the employees who could be implicated in the case is part of the fraud investigation.

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[205] Gleim #: 10.1.30 -- Source: CMA 685 5-26

- Answer (A) is incorrect because The employees must have access to the system. Thus, user codes and passwords would not solve the problem.
- Answer (B) is **correct**. A compatibility test is an access control used to ascertain whether a code number is compatible with the use to be made of the information requested. For example, a user may be authorized to enter only certain kinds of transaction data, to gain access only to certain information, to have access to but not update files, or to use the system only during certain hours.
- Answer (C) is incorrect because A validity check is used to compare input identification numbers with acceptable numbers.
- Answer (D) is incorrect because The employees must have access to the system. Thus, the restriction of access would not solve the problem.

[206] Gleim #: 9.1.5 -- Source: Publisher

- Answer (A) is incorrect because Effective training programs increase the competence of employees.
- Answer (B) is **correct**. Human resource policies and practices are a factor in the control environment component of internal control. They affect the entity's ability to employ sufficient competent personnel to accomplish its objectives. Policies and practices include those for hiring, orientation, training, evaluating, promoting, compensating, and remedial actions. Although control activities based on the segregation of duties are important to internal control, they do not in themselves promote employee competence.
- Answer (C) is incorrect because Performance evaluations improve competence by identifying substandard work and by serving as a basis for rewarding exceptional efforts.
- Answer (D) is incorrect because Effective hiring practices result in selection of competent employees.

[207] Gleim #: 9.1.2 -- Source: CMA 1288 3-25

- Answer (A) is incorrect because The controller is responsible only to the extent that (s)he is a part of the management team.
- Answer (B) is incorrect because Auditors must consider internal control, but they do not establish and maintain it.
- Answer (C) is incorrect because The treasurer is responsible only to the extent that (s)he is a part of the management team.
- Answer (D) is **correct**. Establishing and maintaining internal control is the responsibility of management. Internal control is intended to provide reasonable assurance that the entity's objectives are achieved. Achievement of these objectives is the basic function of management.

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[208] Gleim #: 9.2.62 -- Source: CIA 1188 I-20

- Answer (A) is incorrect because The payroll register should be approved by an officer of the company (this represents a control strength).
- Answer (B) is incorrect because Paychecks should be drawn on a separate payroll checking account (this is a control strength).
- Answer (C) is **correct**. Payroll checks should be signed by the treasurer, i.e., by someone who is not involved in timekeeping, record keeping, or payroll preparation. The payroll clerk performs a record-keeping function.
- Answer (D) is incorrect because Preparing the payroll register is one of the record-keeping tasks of the payroll clerk.

[209] Gleim #: 10.2.65 -- Source: CMA 0205 1-31

- Answer (A) is incorrect because Message acknowledgment procedures are a means only for affirming that a message has been received by the intended party; they do not provide any means of alert in case of interception by an unintended party.
- Answer (B) is **correct**. The most effective preventive measure against unauthorized interception of data is encryption. Encryption technology converts data into a code. Unauthorized users may still be able to access the data, but without the encryption key, they will be unable to decode the information. Encryption technology may be either hardware- or software-based.
- Answer (C) is incorrect because Password codes must be assigned and saved on specific systems; they are not applicable to ongoing electronic transmission.
- Answer (D) is incorrect because Dial back systems are a primitive countermeasure that are only appropriate to old-style dialup modem connections.

[210] Gleim #: 9.2.35 -- Source: CMA 690 5-8

- Answer (A) is incorrect because Personnel should be separate from payroll. The former authorizes the calculation of the payroll by the latter.
- Answer (B) is **correct**. Most companies have their payrolls prepared by the same individuals who maintain the year-to-date records. There is no need for this functional separation because both duties involve record keeping.
- Answer (C) is incorrect because Separating paycheck preparation from distribution makes it more difficult for fictitious employees to receive checks.
- Answer (D) is incorrect because Separating timekeeping and payroll preparation is an effective control. It prevents one person from claiming that an employee worked certain hours and then writing a check to that employee. Payment to an absent or fictitious employee would therefore require collusion between two employees.

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[211] Gleim #: 9.2.100 -- Source: CIA 1187 I-10

- Answer (A) is incorrect because Assignment of an unqualified employee is an avoidable, not an inherent, control weakness.
- Answer (B) is incorrect because Failure to segregate the functions of recording and asset custody is an avoidable condition.
- Answer (C) is **correct**. Inherent limitations of internal control arise from faulty judgment in decision making, simple error or mistake, and the possibility of collusion and management override (AU 319). Thus, a control (use of security guards) based on segregation of functions may be overcome by collusion among two or more employees.
- Answer (D) is incorrect because Transactions can and should be authorized before execution.

[212] Gleim #: 10.2.43 -- Source: CIA 595 III-67

- Answer (A) is incorrect because If viruses infect a system, the company should restore the system with authorized software, but this procedure does not minimize the likelihood of initial infection.
- Answer (B) is **correct**. Software from recognized sources should be tested in quarantine (for example, in a test/development machine or a stand-alone personal computer) because even vendor-supplied software may be infected with viruses. The software should be run with a vaccine program and tested for the existence of logic bombs, etc.
- Answer (C) is incorrect because If viruses infect programs that the company created, it should recompile the programs from source code backups, but this procedure does not minimize the likelihood of initial infection.
- Answer (D) is incorrect because Instituting program change control procedures is good practice but does not minimize the likelihood of the system's being infected initially.

[213] Gleim #: 9.4.157 -- Source: CIA 592 I-23

- Answer (A) is incorrect because Receivables are not examined.
- Answer (B) is **correct**. If the invoices in the sample can be correctly matched with shipping documents, some assurance is given that items billed are also shipped.
- Answer (C) is incorrect because Receivables are not examined in this procedure.
- Answer (D) is incorrect because The tracing procedure originated with a sample of billed sales; thus, all the items in the sample were billed. However, this does not determine whether shipped items were billed.

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[214] Gleim #: 9.4.146 -- Source: Publisher

- Answer (A) is incorrect because Specific individual(s) within high-level personnel of the organization should be assigned overall responsibility to oversee regulatory compliance with standards and procedures. High-level personnel of the organization means individuals who have substantial control of the organization or who have a substantial role in the making of policy within the organization.
- Answer (B) is incorrect because The organization should use due care not to delegate substantial discretionary authority to individuals the organization knows, or should know through the exercise of due diligence, have a propensity to engage in illegal activities. However, care should be taken to ensure that the organization does not infringe upon employees' and applicants' privacy rights under applicable laws. Many jurisdictions have laws limiting the amount of information an organization can obtain in performing background checks on employees.
- Answer (C) is **correct**. The organization should take reasonable steps to achieve compliance with its standards, e.g., by using monitoring and auditing systems reasonably designed to detect criminal conduct by its employees and other agents and by having in place and publicizing a reporting system whereby employees and other agents could report criminal conduct by others within the organization without fear of retribution (PA 2100-5).
- Answer (D) is incorrect because The effectiveness of a compliance program will depend upon the ways in which it is communicated to employees. Generally, an interactive format works better than a lecture. Programs communicated in person tend to work better than programs communicated entirely through video or game formats. Programs that are periodically repeated work better than one-time presentations.

[215] Gleim #: 9.2.53 -- Source: CMA 1283 3-11

- Answer (A) is incorrect because It is a benefit of strong internal control. The cost of the external audit will be lower because of the reduction of the audit effort related to substantive testing.
- Answer (B) is incorrect because It is a benefit of strong internal control. Management will have some assurance of compliance with the FCPA.
- Answer (C) is **correct**. Even the best internal control cannot guarantee the complete elimination of employee fraud. Effective internal control will reduce the amount of employee fraud and probably detect losses on a timely basis.
- Answer (D) is incorrect because It is a benefit of strong internal control. Management will have better data for decision-making purposes.

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[216] Gleim #: 9.2.54 -- Source: CIA 592 II-17

- Answer (A) is incorrect because A group has a better chance of successfully perpetrating a fraud than does an individual employee.
- Answer (B) is incorrect because Management can override controls.
- Answer (C) is **correct**. Segregation of duties and other control procedures serve to prevent or detect a fraud committed by an employee acting alone. One employee may not have the ability to engage in wrongdoing or may be subject to detection by other employees in the course of performing their assigned duties. However, collusion may circumvent controls. For example, comparison of recorded accountability with assets may fail to detect fraud if persons having custody of assets collude with record keepers.
- Answer (D) is incorrect because Even a single manager may be able to override controls.

[217] Gleim #: 9.4.130 -- Source: CIA 589 II-2

- Answer (A) is incorrect because Management and the board, not a committee of the board and a particular manager, endow the IAA with its authority.
- Answer (B) is incorrect because The controller is not the only member of management.
- Answer (C) is **correct**. The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the board (Standard 1000). Furthermore, PA 1000-1 states that the CAE should seek approval of the charter by senior management. The charter should establish the internal audit activity's position within the organization; authorize access to records, personnel, and physical properties relevant to the performance of engagements; and define the scope of internal audit activities.
- Answer (D) is incorrect because The Standards provide no actual authority to the IAA.

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[218] Gleim #: 9.3.122 -- Source: CPA 1180 L-44

- Answer (A) is incorrect because The FCPA antibribery provisions apply to all corporations engaged in interstate commerce (and also to any form of business organization, not just to corporations).
- Answer (B) is **correct**. Although the requirements of the FCPA relating to the maintenance of accounting records and systems of internal accounting control apply only to companies required to register under the Securities Exchange Act of 1934, the antibribery provisions apply to all domestic business concerns engaged in interstate commerce.
- Answer (C) is incorrect because The FCPA antibribery provisions apply to all corporations engaged in interstate commerce (and also to any form of business organization, not just to corporations).
- Answer (D) is incorrect because Although the requirements of the FCPA relating to the maintenance of accounting records and systems of internal accounting control apply only to companies required to register under the Securities Exchange Act of 1934, the antibribery provisions apply to all domestic business concerns engaged in interstate commerce.

[219] Gleim #: 9.2.61 -- Source: CIA 587 II-24

- Answer (A) is incorrect because It concerns the objective of safeguarding of assets, not authorization.
- Answer (B) is **correct**. The control objective of authorization concerns the proper execution of transactions in accordance with management's wishes. One means of achieving this control objective is the establishment of policies as guides to action. When a decision affects the capitalization of the entity, a policy should be in force requiring review at the highest level.
- Answer (C) is incorrect because A better control is to use an independent registrar and transfer agent.
- Answer (D) is incorrect because It does not state a control but rather a specific means of issuing securities.

[220] Gleim #: 9.2.59 -- Source: CIA 1186 I-6

- Answer (A) is incorrect because Aging does not involve accounting entries.
- Answer (B) is **correct**. Sales returns and allowances require the crediting of accounts receivable. The recording of unauthorized credit memoranda is thus one explanation for the discrepancy if sales and cash receipts are properly recorded.
- Answer (C) is incorrect because Lapping entails the theft of cash receipts and the use of subsequent receipts to conceal the theft. The effect is to overstate receivables, but no difference between the control total and the total of subsidiary amounts would arise.
- Answer (D) is incorrect because Interception of customer statements might indicate fraudulent receivables but would not cause the subsidiary ledger discrepancy.

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[221] Gleim #: 10.2.54 -- Source: CPA 579 A-34

- Answer (A) is incorrect because A master file is depicted by a parallelogram (input/output), or a symbol for the type of storage device used (e.g., magnetic tape or disk).
- Answer (B) is **correct**. The symbol on the left represents a manual operation and the symbol on the right a document. The arrow's direction suggests that a document is prepared through a manual operation.
- Answer (C) is incorrect because A computer operation is depicted by a rectangle.
- Answer (D) is incorrect because A computer operation is depicted by a rectangle.

[222] Gleim #: 9.1.26 -- Source: Publisher

- Answer (A) is incorrect because Monitoring strengthens internal control.
- Answer (B) is incorrect because An active and independent board strengthens the control environment.
- Answer (C) is **correct**. It is recognized that the cost of an entity's internal control should not exceed the benefits that are expected to be derived. Although the cost-benefit relationship is a primary criterion that should be considered in designing internal control, the precise measurement of costs and benefits usually is not possible.
- Answer (D) is incorrect because The auditor's responsibility is to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud (AU 110).

[223] Gleim #: 9.2.47 -- Source: Publisher

- Answer (A) is incorrect because It is appropriate for two officers to be required to open the safe-deposit box. One supervises the other.
- Answer (B) is **correct**. Storeroom personnel have custody of assets, while supervisors are in charge of execution functions. To give supervisors access to the raw materials storeroom is a violation of the essential internal control principle of segregation of duties.
- Answer (C) is incorrect because Mail room clerks typically compile a prelisting of cash. The list is sent to the accountant as a control for actual cash sent to the cashier.
- Answer (D) is incorrect because Use of sales department vehicles should be limited to sales personnel unless proper authorization is obtained.

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[224] Gleim #: 9.2.86 -- Source: CMA 1287 5-17

- Answer (A) is incorrect because Segregation of functions makes it more difficult for one person both to perpetrate and conceal an irregularity.
- Answer (B) is **correct**. Preventive controls are designed to prevent an error or irregularity from occurring. State-of-the-art hardware and software would presumably incorporate the latest control features, but a less advanced system could very well contain a sound preventive control structure. Hence, state-of-the-art components are not essential for effective control.
- Answer (C) is incorrect because Documentation provides a guide for conduct.
- Answer (D) is incorrect because Hiring honest and capable employees prevents many problems.

[225] Gleim #: 9.2.88 -- Source: CMA 690 5-9

- Answer (A) is incorrect because The Timekeeping Department authorized payment based on a certain number of hours worked.
- Answer (B) is **correct**. The responsibility for unclaimed paychecks should be given to a department that has no opportunity to authorize or write those checks. Because the treasury function serves only an asset custody function and thus has had no input into the paycheck process, it is the logical repository of unclaimed checks.
- Answer (C) is incorrect because A production supervisor or fellow worker has an opportunity to intercept the check of a fictitious or terminated employee.
- Answer (D) is incorrect because The Payroll Department was responsible for causing the check to be written.

[226] Gleim #: 9.1.25 -- Source: CPA 589 A-11

- Answer (A) is incorrect because Information and communication are components of internal control.
- Answer (B) is incorrect because Monitoring is a component of internal control.
- Answer (C) is incorrect because The control environment is a component of internal control.
- Answer (D) is **correct**. Control risk is one of the elements in the audit risk model. It is the risk that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by the entity's internal control. Hence, control risk is a function of the effectiveness of internal control, not a component thereof.

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[227] Gleim #: 9.4.134 -- Source: CIA 1190 I-49

- Answer (A) is **correct**. The IAA evaluates the adequacy and effectiveness of controls (Standard 2130.A1). Moreover, the IAA must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement (Standard 2130). Thus, an internal auditor must not simply assume that controls are adequate and effective.
- Answer (B) is incorrect because The relative complexity, materiality, or significance of matters to which assurance procedures are applied should be considered.
- Answer (C) is incorrect because Due professional care does not require detailed reviews of all transactions (PA 1220-1).
- Answer (D) is incorrect because The internal auditor should consider the cost of assurance in relation to potential benefits.

[228] Gleim #: 9.2.93 -- Source: CMA 690 5-4

- Answer (A) is incorrect because The Stores Department is responsible only for the security of goods once they are received.
- Answer (B) is incorrect because The Inventory Control Department should not have to follow up on orders once the purchase requisition has been sent.
- Answer (C) is **correct**. The Purchasing Department is in the best position to follow up on purchase orders because it is the department closest to the vendors. In effect, the Purchasing Department is fully responsible for all communications with the vendor from the time a purchase order is issued until the goods are received.
- Answer (D) is incorrect because Production Planning is concerned only with the types and quantities of products to be produced.

[229] Gleim #: 10.1.28 -- Source: CIA 1193 III-19

- Answer (A) is incorrect because Software code comparisons are used to validate that programs in production correspond to an authorized copy of the software.
- Answer (B) is incorrect because Test decks are used to verify processing accuracy.
- Answer (C) is incorrect because Transaction retrievals are used to select items for testing and review.
- Answer (D) is **correct**. Flowcharting is a useful tool for systems development as well as understanding the internal control structure. A flowchart is a pictorial diagram of the definition, analysis, or solution of a problem in which symbols are used to represent operations, data flow, transactions, equipment, etc. The processing is presented as sequential from the point of origin to final output distribution. Processing usually flows from top to bottom and left to right in the flowchart. Areas of responsibility (e.g., data processing or purchasing) are usually depicted in vertical columns or areas.

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[230] Gleim #: 9.2.51 -- Source: CIA 589 II-7

- Answer (A) is incorrect because This control is implemented before deposits are prepared and recorded in the company's books. The problem here is the detection of the diversion of funds that have been properly recorded upon receipt.
- Answer (B) is **correct**. Having an independent third party prepare the bank reconciliations would reveal any discrepancies between recorded deposits and the bank statements. A bank reconciliation compares the bank statement with company records and resolves differences caused by deposits in transit, outstanding checks, NSF checks, bank charges, errors, etc. The other answer choices are controls implemented before deposits are prepared and recorded in the company's books. The problem here is the detection of the diversion of funds that have been properly recorded upon receipt.
- Answer (C) is incorrect because This control is implemented before deposits are prepared and recorded in the company's books. The problem here is the detection of the diversion of funds that have been properly recorded upon receipt.
- Answer (D) is incorrect because This control is implemented before deposits are prepared and recorded in the company's books. The problem here is the detection of the diversion of funds that have been properly recorded upon receipt.

[231] Gleim #: 9.4.128 -- Source: CIA 590 I-5

- Answer (A) is **correct**. "Effectiveness of risk management, control, and governance processes is present if management directs processes in such a manner as to provide reasonable assurance that the organization's objectives and goals will be achieved. In addition to accomplishing the objectives and planned activities, management directs by authorizing activities and transactions, monitoring resulting performance, and verifying that the organization's processes are operating as designed" (PA 2100-1).
- Answer (B) is incorrect because The adequacy of risk management processes concerns planning and design by management that provides reasonable assurance that objectives and goals will be achieved efficiently and economically.
- Answer (C) is incorrect because The adequacy of risk management processes concerns planning and design by management that provides reasonable assurance that objectives and goals will be achieved efficiently and economically.
- Answer (D) is incorrect because The adequacy of risk management processes concerns planning and design by management that provides reasonable assurance that objectives and goals will be achieved efficiently and economically.

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[232] Gleim #: 9.1.24 -- Source: Publisher 2009

- Answer (A) is incorrect because AS 5 adopts a financial statement-oriented focus toward internal controls.
- Answer (B) is incorrect because AS 5 states no preference for preventive over detective controls.
- Answer (C) is incorrect because AS 5 states no preference for detective over preventive controls.
- Answer (D) is **correct**. AS 5 states that, "... a company's internal control cannot be considered effective if one or more material weaknesses exist..." Material weaknesses are deficiencies in internal control that might result in a material misstatement of the financial statements.

[233] Gleim #: 9.1.7 -- Source: CPA 1173 L-20

- Answer (A) is **correct**. The directors of a corporation owe a fiduciary duty to the corporation and the shareholders. They are also expected to exercise reasonable business judgment. The law does recognize human fallibility and allows for directors to be safe from liability for honest mistakes of judgment.
- Answer (B) is incorrect because Directors are personally liable for failure to exercise reasonable care.
- Answer (C) is incorrect because Directors are prohibited from declaring dividends that would violate a state statute establishing a minimum legal capital.
- Answer (D) is incorrect because A director may not exploit opportunities presented to him/her in his/her capacity as a director for his/her own benefit without first offering them to the corporation.

[234] Gleim #: 9.2.70 -- Source: CIA 1192 II-20

- Answer (A) is incorrect because The clerk could circumvent using time cards and attendance records in the computation of employee gross earnings.
- Answer (B) is incorrect because Having the treasurer's office sign payroll checks takes place after the fact.
- Answer (C) is **correct**. The payroll department is responsible for assembling payroll information (record keeping). The personnel department is responsible for authorizing and executing employee transactions such as hiring, firing, and changes in pay rates and deductions. Segregating these functions helps prevent fraud. Thus, the payroll for each period should be compared with the active employment files of the personnel department. Authorization by the personnel department is the only control placed in the transaction flow early enough to prevent the addition of bogus employees to the payroll.
- Answer (D) is incorrect because The problem is with fictitious employees, not close relatives working in the same department.

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[235] Gleim #: 9.2.105 -- Source: CIA 1190 I-10

- Answer (A) is **correct**. A common form of payroll fraud involves failure to remove terminated employees from the payroll and the diversion of the payments intended to be made to them. Reconciling time cards, job time tickets, and the payroll may detect this fraud. However, the perpetrator, who may be a supervisor, may be able to falsify the time-keeping records. In that case, a surprise observation of the distribution of payroll may be necessary to detect the fraud.
- Answer (B) is incorrect because Mailing checks to employees' residences does not test the validity of the payroll.
- Answer (C) is incorrect because Establishing direct-deposit procedures with employees' banks does not test the validity of the payroll.
- Answer (D) is incorrect because Fraudulent payments may be made within the limits on payroll rates.

[236] Gleim #: 9.2.66 -- Source: CIA 1187 I-43

- Answer (A) is **correct**. Salespeople should be responsible for generating sales and providing service to customers. For effective control purposes, the finance department should be responsible for monitoring the financial condition of prospective and continuing customers in the credit approval process.
- Answer (B) is incorrect because Trade-credit standards may be evaluated and approved by a committee of the board or delegated to management.
- Answer (C) is incorrect because The credit department should approve transactions based upon credit information before sales are processed.
- Answer (D) is incorrect because The procedure described is customary.

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[237] Gleim #: 9.4.126 -- Source: Publisher

- Answer (A) is incorrect because Consulting services include “advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.”
- Answer (B) is incorrect because Consulting services include “advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.”
- Answer (C) is **correct**. According to the Glossary published by The IIA as part of the Standards, an assurance service is “an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.”
- Answer (D) is incorrect because Consulting services include “advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.”

[238] Gleim #: 9.2.102 -- Source: CIA 1189 II-7

- Answer (A) is incorrect because A detective control uncovers an error or fraud that has already occurred.
- Answer (B) is incorrect because A directive control causes or encourages a desirable event.
- Answer (C) is **correct**. A prelisting of cash receipts in the form of checks is a preventive control. It is intended to deter undesirable events from occurring. Because fraud involving cash is most likely to occur before receipts are recorded, either remittance advices or a prelisting of checks should be prepared in the mail room so as to establish recorded accountability for cash as soon as possible. A cash register tape is a form of prelisting for cash received over the counter. One copy of a prelisting will go to accounting for posting to the cash receipts journal, and another is sent to the cashier for reconciliation with checks and currency received.
- Answer (D) is incorrect because A corrective control rectifies an error or fraud.

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[239] Gleim #: 9.2.98 -- Source: Publisher

- Answer (A) is incorrect because Safeguarding resources is subsumed under the overall purpose of providing reasonable assurance that the objectives of the organization are achieved.
- Answer (B) is incorrect because Encouraging compliance with management's intentions is subsumed under the overall purpose of providing reasonable assurance that the objectives of the organization are achieved.
- Answer (C) is incorrect because Ensuring the accuracy, reliability, and timeliness of information is subsumed under the overall purpose of providing reasonable assurance that the objectives of the organization are achieved.
- Answer (D) is **correct**. According to AU 319, "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations."

[240] Gleim #: 10.2.50 -- Source: Publisher

- Answer (A) is incorrect because A man-in-the-middle attack takes advantage of network packet sniffing and routing and transport protocols to access packets flowing through a network.
- Answer (B) is incorrect because Sniffing is use of software to eavesdrop on information sent by a user to the host computer of a website.
- Answer (C) is incorrect because A brute-force attack uses password cracking software to try large numbers of letter and number combinations to access a network.
- Answer (D) is **correct**. Passwords, user account numbers, and other information may be stolen using techniques such as Trojan horses, IP spoofing, and packet sniffers. Spoofing is identity misrepresentation in cyberspace, for example, by using a false website to obtain information about visitors.

[241] Gleim #: 10.2.38 -- Source: Publisher

- Answer (A) is incorrect because An authentication system verifies a user's identity and is often an application provided by a firewall system, but it is not a firewall system itself.
- Answer (B) is incorrect because A packet filtering system examines each incoming IP packet.
- Answer (C) is incorrect because Kerberos is encryption and authentication software that uses DES encryption techniques.
- Answer (D) is **correct**. A proxy server maintains copies of web pages to be accessed by specified users. Outsiders are directed there, and more important information is not available from this access point.

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[242] Gleim #: 10.1.9 -- Source: CMA 0205 4-11

- Answer (A) is **correct**. The primary use of generalized audit software (GAS) is to select and summarize a client's records for additional testing. These packages permit the auditor to audit through the computer; to extract, compare, analyze, and summarize data; and to generate output for use in the audit. They allow the auditor to exploit the computer to examine many more records than otherwise possible with far greater speed and accuracy. Hence, GAS facilitates analysis of all sources of potential error. However, concurrent auditing techniques are not included because they must be incorporated into the client's systems. For example, embedded audit data collection is a transaction selection approach incorporated within the regular production programs to routinely extract transactions meeting certain criteria for further testing. In effect, it provides a window through which the auditor can access the process.
- Answer (B) is incorrect because Dubious transactions can be immediately identified and reported to the auditor (rather than the user) for review and investigation, without waiting for the scheduled audit.
- Answer (C) is incorrect because Embedded audit modules and the like compensate for the loss of the traditional paper audit trail.
- Answer (D) is incorrect because Dubious transactions can be immediately identified and reported to the auditor (rather than the user) for review and investigation, without waiting for the scheduled audit.

[243] Gleim #: 9.2.73 -- Source: CIA 589 III-2

- Answer (A) is incorrect because Drafting procedures, not reviewing them, would impair independence.
- Answer (B) is incorrect because No reason exists for internal auditing to receive copies of these forms. In an audit, auditee copies will be sufficient.
- Answer (C) is incorrect because It describes a possible procedure in a future audit if the travel approval system is implemented.
- Answer (D) is **correct**. The objectivity of internal auditors is not impaired by recommending standards of control for systems or reviewing procedures before implementation (Standard 120). Indeed, the scope of work encompasses examining and evaluating the adequacy and effectiveness of internal control (Standard 300). The review for adequacy concerns efficiency and economy. According to SIAS 1, "Efficient performance accomplishes objectives and goals in an accurate and timely fashion with minimal use of resources." The review for effectiveness is to determine whether the system will function as intended. Effective control is present when there is reasonable assurance that objectives and goals will be achieved.

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[244] Gleim #: 9.2.49 -- Source: CMA 1286 3-26

- Answer (A) is incorrect because Detection risk is the risk that the auditor will not detect a material misstatement that exists in an assertion.
- Answer (B) is incorrect because Audit risk is the risk that the auditor may unknowingly fail to appropriately modify an opinion on financial statements that are materially misstated.
- Answer (C) is incorrect because Sampling risk is the risk that a particular sample may contain proportionately more or fewer monetary misstatements or deviations from controls than exist in the population as a whole.
- Answer (D) is **correct**. Inherent risk is the susceptibility of an assertion to a material misstatement in the absence of related controls. This risk is greater for some assertions and related balances or classes than others. For example, complex calculations are more likely to be misstated than simple ones, and cash is more likely to be stolen than an inventory of coal. Inherent risk exists independently of the audit.

[245] Gleim #: 9.2.37 -- Source: Publisher

- Answer (A) is **correct**. No control should require disposal of fully depreciated assets. They may still be productive and used in the business and should remain on the books until disposal.
- Answer (B) is incorrect because Detailed property records and physical controls over assets are proper controls over property, plant, and equipment.
- Answer (C) is incorrect because Written policies for capitalization and expenditure and review of application of depreciation methods are proper controls over property, plant, and equipment.
- Answer (D) is incorrect because Proper authority for acquisition and retirement of assets is a proper control over property, plant, and equipment.

[246] Gleim #: 9.3.119 -- Source: CMA 1280 3-26

- Answer (A) is incorrect because Authorized agents of the federal government already have access to records of SEC registrants.
- Answer (B) is incorrect because There are no requirements for providing periodic reports on foreign commerce or foreign political party affiliations.
- Answer (C) is **correct**. The main purpose of the Foreign Corrupt Practices Act of 1977 is to prevent bribery by firms that do business in foreign countries. A major ramification is that it requires all companies that must register with the SEC under the Securities Exchange Act of 1934 to maintain adequate accounting records and a system of internal accounting control.
- Answer (D) is incorrect because Although some international accounting standards have been promulgated, they are incomplete and have not gained widespread acceptance.

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[247] Gleim #: 9.2.31 -- Source: CMA 1281 3-19

- Answer (A) is incorrect because The treasurer, in the normal performance of the custodianship function, rightly has access to stock certificates.
- Answer (B) is incorrect because The approval of temporary stock purchases by the treasurer or the president is a typical delegation of authority by the board. However, the directors should periodically review this activity.
- Answer (C) is **correct**. Access to stock certificates by the controller is a breakdown of the fundamental segregation of duties needed for effective internal control. The controller, who performs the accounting function, should not have access to the assets.
- Answer (D) is incorrect because The controller prepares accrual adjustments on bonds, e.g., discount (premium) amortization.

[248] Gleim #: 10.2.63 -- Source: CPA 1176 A-13

- Answer (A) is incorrect because The normal vertical movement is top to bottom.
- Answer (B) is incorrect because The normal horizontal movement is left to right.
- Answer (C) is **correct**. The direction of flow in the normal sequence of documents and operations on a well-prepared systems flowchart is from top to bottom and from left to right.
- Answer (D) is incorrect because The normal sequence is top to bottom and left to right.

[249] Gleim #: 9.4.140 -- Source: CIA 597 I-62

- Answer (A) is **correct**. The internal auditor's objectivity is not adversely affected when (s)he recommends standards of control for systems or reviews procedures before they are implemented. Designing, installing, drafting procedures for, or operating systems is presumed to impair objectivity (PA 1130.A1-1).
- Answer (B) is incorrect because Recommending standards of control and performing reviews of procedures are presumed not to impair objectivity.
- Answer (C) is incorrect because Recommending standards of control and performing reviews of procedures are presumed not to impair objectivity.
- Answer (D) is incorrect because Drafting procedures is presumed to impair objectivity.

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Answer Key
(249 Questions)

1)	C	37)	D	73)	A
2)	D	38)	A	74)	D
3)	A	39)	D	75)	A
4)	C	40)	C	76)	A
5)	D	41)	A	77)	D
6)	C	42)	A	78)	B
7)	B	43)	B	79)	C
8)	D	44)	C	80)	D
9)	B	45)	D	81)	D
10)	A	46)	D	82)	A
11)	A	47)	C	83)	D
12)	B	48)	B	84)	C
13)	A	49)	C	85)	D
14)	C	50)	D	86)	A
15)	A	51)	B	87)	A
16)	D	52)	D	88)	D
17)	D	53)	C	89)	A
18)	D	54)	B	90)	C
19)	A	55)	D	91)	C
20)	D	56)	C	92)	B
21)	B	57)	C	93)	A
22)	B	58)	D	94)	A
23)	D	59)	C	95)	D
24)	B	60)	D	96)	B
25)	C	61)	D	97)	D
26)	D	62)	D	98)	B
27)	B	63)	D	99)	A
28)	C	64)	B	100)	D
29)	C	65)	B	101)	B
30)	D	66)	B	102)	B
31)	D	67)	A	103)	A
32)	D	68)	B	104)	A
33)	C	69)	B	105)	D
34)	B	70)	A	106)	A
35)	C	71)	B	107)	B
36)	C	72)	D	108)	D

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Answer Key
(249 Questions)

109)	A	145)	D	181)	D
110)	B	146)	A	182)	B
111)	D	147)	B	183)	D
112)	A	148)	B	184)	D
113)	C	149)	D	185)	B
114)	D	150)	C	186)	C
115)	C	151)	A	187)	B
116)	A	152)	D	188)	D
117)	D	153)	B	189)	C
118)	C	154)	B	190)	D
119)	D	155)	B	191)	D
120)	D	156)	D	192)	C
121)	D	157)	B	193)	C
122)	A	158)	D	194)	B
123)	A	159)	A	195)	D
124)	C	160)	A	196)	C
125)	A	161)	D	197)	D
126)	D	162)	D	198)	A
127)	C	163)	A	199)	D
128)	B	164)	D	200)	B
129)	D	165)	A	201)	A
130)	D	166)	A	202)	C
131)	D	167)	A	203)	B
132)	A	168)	C	204)	B
133)	B	169)	A	205)	B
134)	B	170)	D	206)	B
135)	A	171)	A	207)	D
136)	B	172)	D	208)	C
137)	B	173)	A	209)	B
138)	C	174)	D	210)	B
139)	C	175)	C	211)	C
140)	B	176)	D	212)	B
141)	A	177)	A	213)	B
142)	C	178)	C	214)	C
143)	C	179)	D	215)	C
144)	A	180)	B	216)	C

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Answer Key
(249 Questions)

- 217) C
- 218) B
- 219) B
- 220) B
- 221) B
- 222) C
- 223) B
- 224) B
- 225) B
- 226) D
- 227) A
- 228) C
- 229) D
- 230) B
- 231) A
- 232) D
- 233) A
- 234) C
- 235) A
- 236) A
- 237) C
- 238) C
- 239) D
- 240) D
- 241) D
- 242) A
- 243) D
- 244) D
- 245) A
- 246) C
- 247) C
- 248) C
- 249) A