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Practice of Internal Auditing

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Question: 1

Which of the following analytical procedures should an internal auditor use to determine whether monthly expenses for the accounting department are reasonable?

- A. Review year-over-year trending of total dollars spent in each period.
- B. Review changes to the vendor master file for suspicious activity.
- C. Review the percentage of on-time payments against prior periods.
- D. Review total expenses for accounting against other department expenses in the organization.

Answer: A

Explanation:

Step-by-Step Detailed Explanation:

A . Review year-over-year trending of total dollars spent in each period:

This is the correct approach because year-over-year analysis focuses on identifying anomalies or significant variances in expenses over time. Trends in data can help detect unexpected spikes, dips, or patterns that indicate irregularities or inefficiencies. This aligns with analytical procedures in expense analysis under the CIA Exam Syllabus Part 2, which emphasizes the use of comparative techniques to evaluate reasonableness.

B . Review changes to the vendor master file for suspicious activity:

While reviewing vendor master file changes is essential for fraud detection and control testing, it does not directly help in determining the reasonableness of monthly expenses.

C . Review the percentage of on-time payments against prior periods:

Examining payment timeliness relates to operational efficiency and cash flow management, not directly to evaluating whether monthly expenses are reasonable.

D . Review total expenses for accounting against other department expenses in the organization:

Comparing accounting department expenses to those of other departments might indicate disparities but does not consider differences in department-specific activities and needs.

CIA Exam Syllabus Reference:

Domain V: Performing Internal Audit Services – Analytical Procedures and Testing Methods.

Question: 2

During an internal audit engagement, which of the following is true regarding the decision to use statistical sampling or nonstatistical sampling?

- A. The decision affects the test procedures performed.
- B. The auditor's response to errors detected will be influenced.
- C. The competence of the evidence obtained is greater with statistical sampling.
- D. Nonstatistical sampling may be more cost effective.

Answer: A

Explanation:

Step-by-Step Detailed Explanation:

A . The decision affects the test procedures performed:

Correct. The choice between statistical and nonstatistical sampling affects the design of the sample selection, execution of audit procedures, and the nature of conclusions drawn. Statistical sampling involves probabilistic techniques that influence sample size and evaluation, whereas nonstatistical sampling relies on auditor judgment.

B . The auditor's response to errors detected will be influenced:

While error response is critical, it is influenced more by the nature and materiality of the errors than by the sampling approach.

C . The competence of the evidence obtained is greater with statistical sampling:

This is incorrect because the competence of evidence depends on the procedure itself, not the sampling method used. Both methods can yield competent evidence if applied correctly.

D . Nonstatistical sampling may be more cost effective:

While this can sometimes be true, it is context-dependent and not universally applicable, so it is not the best answer.

CIA Exam Syllabus Reference:

Domain II: Risk Management and Control – Sampling Techniques and Audit Evidence.

Question: 3

When auditing an organization's purchasing function, which of the following appropriately matches an engagement objective and the resulting audit procedure?

A. Determine whether the purchasing department complies with policy by examining a random selection of purchase orders.

B. Evaluate whether purchasing requests are properly approved by authorized staff by obtaining independent verification from the vendors.

C. Ascertain whether material receipts are recorded on a timely basis by reviewing physical inventory stock counts.

D. Determine whether prices charged for goods received are correct by reviewing the appropriate accounts payable record by vendor.

Answer: A

Explanation:

Step-by-Step Detailed Explanation:

A . Determine whether the purchasing department complies with policy by examining a random selection of purchase orders:

Correct. Reviewing a random sample of purchase orders is a standard procedure for evaluating compliance with purchasing policies, such as approval requirements, vendor selection, and adherence to budget constraints.

B . Evaluate whether purchasing requests are properly approved by authorized staff by obtaining independent verification from the vendors:

Vendor verification is not typically used to evaluate internal approvals as this information is available within the organization's records.

C . Ascertain whether material receipts are recorded on a timely basis by reviewing physical inventory stock counts:

Physical inventory reviews focus on inventory management and reconciliation, not specifically on the timeliness of receipts.

D . Determine whether prices charged for goods received are correct by reviewing the appropriate accounts payable record by vendor:

While reviewing accounts payable records helps verify the accuracy of pricing, it does not directly evaluate the purchasing department's adherence to procedures.

CIA Exam Syllabus Reference:

Domain V: Performing Internal Audit Services – Audit Engagement Objectives and Procedures.

Question: 4

A team of internal auditors is assigned to audit the employee relations process in an organization, which includes employee conduct and disciplinary hearings. Which of the following audit approaches would provide the auditors with the best evidence to determine the degree to which disciplinary decisions are complying with documented policy?

- A. Review a random sample of concluded disciplinary reports to assess how the policy was applied in each case.
- B. Interview a sample of impacted employees for their opinions on the clarity and fairness of the policy.
- C. Observe several disciplinary hearings to determine whether they are in compliance with the policy.
- D. Conduct an interview to assess the disciplinary hearing chairman's understanding of the policy and its appropriate use.

Answer: A

Explanation:

Step-by-Step Detailed Explanation:

A . Review a random sample of concluded disciplinary reports to assess how the policy was applied in each case:

This is the correct answer because reviewing documented reports provides objective evidence of whether decisions complied with policies. This approach ensures that the auditor relies on concrete evidence rather than subjective opinions or observations.

B . Interview a sample of impacted employees for their opinions on the clarity and fairness of the policy: While employee feedback is valuable, it is subjective and does not provide sufficient evidence of compliance with the documented policy.

C . Observe several disciplinary hearings to determine whether they are in compliance with the policy: Observations are limited to current proceedings and do not account for how policies were applied in past cases, making this approach less comprehensive.

D . Conduct an interview to assess the disciplinary hearing chairman's understanding of the policy and its appropriate use:

Interviews provide insight into understanding and intent but do not offer evidence of actual compliance.
CIA Exam Syllabus Reference:
Domain V: Performing Internal Audit Services – Evidence Collection and Assessment Methods.

Question: 5

Which of the following represents the best method for confirming that vendor invoices were for authorized purchases?

- A. Vouching vendor invoices to payments made.
- B. Sorting invoices by purchase orders and comparing for successive duplicate invoices.
- C. Comparing a random sample of vendor invoices to purchase orders.
- D. Sorting payments by invoice to detect successive duplicate invoices.

Answer: C

Explanation:

Step-by-Step Detailed Explanation:

A . Vouching vendor invoices to payments made:

This verifies payment accuracy but does not confirm whether purchases were authorized.

B . Sorting invoices by purchase orders and comparing for successive duplicate invoices:

This approach focuses on detecting duplicate invoices, not authorization.

C . Comparing a random sample of vendor invoices to purchase orders:

Correct. This method directly matches invoices to purchase orders, confirming that purchases were authorized and appropriately documented.

D . Sorting payments by invoice to detect successive duplicate invoices:

Similar to option B, this approach focuses on detecting duplicates rather than verifying authorization.

CIA Exam Syllabus Reference:

Domain V: Performing Internal Audit Services – Testing for Authorization and Validity.



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