CHAPTER 2

Multiple-choice questions

I)

COSO is the abbreviation of:

a) Committee of Sponsoring Organizations of the Treadway Commission.
b) Commission for Special Objectives.
c) Committee of Sponsoring Objectives.
d) Commission of Specialty Organizations.

II)

Which category is not an objective of a system of internal control?

a) The reliability of the financial reporting.
b) The compliance with applicable laws and regulations.
c) The effectiveness and efficiency of the company's operations.
d) The identification of organizational objectives.

III)

What is incorrect? According to COSO, a system of internal control consists of the following interrelated components:

a) Control environment.
b) Preparation of financial statements.
c) Control activities.
d) Information and communication.

IV)

Control activities are usually classified as:

a) Internal and external controls.
b) Financial controls, internal controls and corrective controls.
c) Preventive, detective and corrective controls.
d) Financial controls, accounting controls and internal controls.

V)

Which aspect of transaction processing does not relate to the segregation of duties-principle?

a) Preparing transactions.
b) Authorizing transactions.
c) Recording transactions.
d) Safeguarding resources resulting from consummating transactions.

VI)

The internal audit function should be

a) an independent department reporting directly to the Audit Committee.
b) part of the accounting department.
c) part of general management.
d) an independent department reporting directly to the Chief Finance Officer.

VII)
The scope of internal auditing covers
a) accounting.
b) main business operations.
c) finance department.
d) all activities within a company.

VIII)
The responsibility for preparing the financial statements is that of the
a) Head of the accounting department.
b) External auditor.
c) Internal auditor.
d) Board of directors.

IX)
What is not a mandatory task of the basic statutory audit?
a) Check that the accounting database effectively picks up all the company's activities.
b) Check the correctness of the accounting database.
c) Check for company fraud.
d) Check that the financial statements are a reasonable representation of the company's real state.

X)
The reliability of financial reporting is the responsibility of
a) stock market regulators.
b) external auditors.
c) company management.
d) shareholders.
e) tax authorities.

XI)
Internal controls include policies and procedures
a) designed to ensure accurate accounting records.
b) designed to safeguard a company's resources.
c) designed and implemented by external auditors.
d) Both a and b.
e) All of the above.

XII)
Which of the following control measures should be included to achieve effective internal control over cash?
a) Monthly bank reconciliations are to be prepared by a person not involved in the handling of cash.
b) Monthly bank reconciliations are to be prepared by a person not involved in the recording of cash transactions.
c) All cash receipts are deposited daily in the bank.

d) Cash handling responsibilities are separated from those responsible for the recording of cash transactions.
e) All of the above are part of a good system of internal accounting control over cash.

XIII)

Internal control refers to all of the following, except

a) a guarantee.
b) a means to an end.
c) a system.
d) a process.

XIV)

The Sarbanes-Oxley Act of 2002 included all of the following reforms, except:

a) the strengthening of auditor independence rules.
b) the creation of an accounting oversight board.
c) the granting of the responsibility for the system of internal control to audit teams.
d) enhancements of financial reporting quality.
e) a mandatory effectiveness review of the internal control structure.

XV)

Business ethics are at the heart of

a) the control environment.
b) risk assessment.
c) information and communication practices.
d) control activities.
e) monitoring.

XVI)

Responsibility for a good system of internal control resides with

a) shareholders.
b) management.
c) stock exchange regulators.
d) external auditors.
e) internal auditors.

XVII)

The internal audit function can be conceived as part of

a) the control environment.
b) risk assessment.
c) information and communication practices.
d) control activities.
e) monitoring.

XVIII)

Policies and procedures manuals are at the heart of

a) the control environment.

b) risk assessment.
c) information and communication practices.
d) control activities.
e) monitoring.

XIX)

Which of the following is not explicitly identified as an element of a system of internal control according COSO?

a) Corporate goal setting.
b) Monitoring.
c) Risk assessment.
d) Control environment.

XX)

The treasurer of a company is typically responsible for

a) follow-up of payroll.
b) efficiency and effectiveness of business operations.
c) safeguarding and efficient use of liquid resources.
d) efficient use of human resources.
e) financial accounting and reporting.

Solutions

I	a
II	d
III	b
IV	c
V	a
VI	a
VII	d
VIII	d
IX	c
X	c
XI	d
XII	e
XIII	a
XIV	c
XV	a
XVI	b
XVII	e
XVIII	d
XIX	a
XX	c