

Practice Test Questions, Answers & Explanations

Note: Sample only – Production version shows over 200 questions

7. Which of the following statements concerning controls and risks is most correct?

1. some controls may cost more than the dollar value of the benefit
2. risks will rise only as a result of an absence of controls
3. a written code of conduct reviewed and monitored with staff members
4. a cost-benefit analysis should specify that large potential and exposed areas that need to be controlled
5. all the controls that could be applied for an identified risk should be used in the respective control system

a.	answers 1. & 4.
b.	answers 3. & 5.
c.	answer 1. only
d.	answer 4. only
e.	answers 2. & 4.

Answer c. is the correct answer. Item 1. states that the controls identified in a risk application may or may not be appropriate. The correct answer and a statement of fact, is that some controls may cost more than the dollar value of the benefit they provide. This may and should be intended. In some cases, no matter what the expense, risk and exposure must be mitigated. A few examples of this would be life threatening situations and the protection of trade names.

Answers a., d. & e. are incorrect because item 4. incorrectly states that a cost-benefit analysis will specify what areas needs to be controlled. It will not. A cost-benefit analysis is used to determine the control expense that should be applied to mitigate a given risk.

Answer b. is incorrect as Item 5. states incorrectly that all the controls that could be applied for an identified risk should be used in the respective control system Controls may not be cost-effective, may not be effective, or may have outlived their usefulness. Controls do not always negate existing or contemplated risks. The concept of reasonability is apparent with the application of controls. Generally, there is reasonable assurance that risks will be mitigated with the application of controls.

96. The development and implementation of integrated control models have proven to be a great asset for process owners. Enterprise Risk Management (ERM) was developed after the initial COSO integrated control model. In the ERM model which control objective, better than the control objectives in the original COSO model or the new COSO 2013 model, will best address external risk?

a.	<i>the strategic management dimension</i>
b.	the soft issues as addressed in the control environment component, which is also addressed in the COSO model
c.	the combination of all components and control objectives
d.	all of the above

Answer a. is the correct answer. Strategic management addresses the impact of external forces. Answer b. is incorrect. The soft issues in answer b. are a good foundation for a control environment. However, these soft issues do not specifically address the external issues. Answer c. is incorrect as it does not address which components and control objectives are from which model or models. Answer d. is incorrect as soon as one of the other answers is eliminated.

201. The COSO 2013 model, which is an expansion and enhancement to the original COSO model, was developed to address the contemporary changes in business, international involvement, and technology changes. In other words the world has change so did the need for controls. The COSO 2013 model incorporates 17 principles and a number points of focus to help ensure that all controls are addressed adequately and appropriately in a business process. Which of the following best describes a control activity in the COSO 2013 model?

a.	a physical check compares the date when payment was received to the current date of processing in the accounts receivable computer system and reports any discrepancies
b.	<i>the organization establishes technology controls to inhibit unauthorized access to systems after employees leave the payroll</i>
c.	checks that are received as payment for open accounts receivable may randomly be diverted to the mailroom
d.	pertinent information on payments may be incorrectly entered in the accounts receivable system

Answer b. is the correct answer. Control activities, as defined in the COSO 2013 model, are the more tangible controls. The physical activity of the compliance with policies and procedures are good examples. More specifically principle #11 states that: “an organization selects and develops general control activities over technology to support the achievement of objectives”. Principle #11 is part of the control activities component of COSO 2013.

Answers a. & c. can be eliminated because they are too vague. Checks received may randomly be diverted to the mailroom and pertinent information on payments may be incorrectly entered in the accounts receivable system are both too vague.

Comparing the payment date with the processing date and reporting discrepancies may be considered a control activity. However, a better answer is that the accounts receivable collectors are taking prompt action on accounts which are overdue.

Answer d. can be eliminated because reporting discrepancies does not demonstrate what happens to the discrepancies after they are reported.

The question asks for the best answer. It is important to read the entire question and answer the question that is being asked with the best answer available.