

IIA

Exam Questions IIA-CIA-Part1

Certified Internal Auditor - Part 1, The Internal Audit Activity's Role in Governance, Risk, and Control



NEW QUESTION 1

According to IIA guidance, which of the following best describes internal auditors' responsibility regarding fraud?

- A. Internal auditors should take a leading role in investigating all fraud-related cases.
- B. Internal auditors must have sufficient knowledge to evaluate the risk of fraud.
- C. Internal auditors should report all fraud cases to law enforcement agents, in accordance with the Code of Ethics.
- D. Internal auditors are responsible for ensuring that fraud does not occur.

Answer: B

NEW QUESTION 2

Which of the following documents is most appropriate in promoting the objectivity of the internal audit activity?

- A. Usage of IT system policy.
- B. Risk management framework.
- C. Acceptance of gifts policy.
- D. Personal responsibility policy.

Answer: C

NEW QUESTION 3

With regard to IT governance, which of the following is the most effective and appropriate role for the internal audit activity?

- A. Independently evaluate the skills and experience of potential chief information officer candidates to assess the best fit based on the organization's risk appetite.
- B. Evaluate the organization's governance standards and assess IT-related activities to identify gaps and develop policies, ensuring alignment with the organization's risk appetite.
- C. Assist management in interpreting complex IT-related privacy and security risk exposures and evaluating potential mitigation strategies.
- D. Assess whether governance activities are aligned with the organization's risk appetite and take into consideration emerging risks.

Answer: D

NEW QUESTION 4

Which of the following techniques would provide the most compelling evidence that a safety hazard exists within a manufacturing facility?

- A. Observation of the facility during operations.
- B. Questioning of facility management, including the facility safety officer.
- C. Analysis of facility operating reports, focusing on instances when breakdowns occurred.
- D. Review of records involving safety violations, filed by facility production employees.

Answer: A

NEW QUESTION 5

According to IIA guidance, which of the following roles would be appropriate for an internal auditor regarding fraud risk?

- * 1. Identification.
- * 2. Mitigation.
- * 3. Remediation.
- * 4. Reduction.

- A. 1 onl
- B. |
- C. 1 and 4 only.
- D. 1, 3, and 4 only.
- E. 1,2, 3, and 4.

Answer: B

NEW QUESTION 6

Which of the following control activities is the most effective to ensure users' levels of access are appropriate for their current roles?

- A. The human resources department generates a monthly list of terminated and transferred employees and requests IT to update the user access as required.
- B. Standardized user access profiles are developed and the appropriate access profiles are automatically assigned to new or transferred employees.
- C. System administrator rights are assigned to one user in each department who can update user access of terminated or transferred employees immediately.
- D. Department managers are required to perform periodic user access reviews of relevant systems and applications.

Answer: D

NEW QUESTION 7

An organization is facing a financial downturn and needs to impose major budget reductions to all departments. According to MA guidance, which of the following actions is most appropriate for the board to take to evaluate the potential impact on the internal audit activity?

- A. Ask management to determine which internal audit engagements are lower risk and could be considered for removal from the annual audit plan.
- B. Ask appropriate stakeholders for their opinion on the potential impacts of reducing the scope of the internal audit plan.
- C. Ask the chief audit executive to determine whether budgetary limitations impede the ability of the internal audit activity to execute its responsibilities.
- D. Ask The human resources department to determine how the annual compensation and salary of the audit staff could be adjusted to achieve savings.

Answer: C

NEW QUESTION 8

According to the IA Code of Ethics, which of the following statements best describes the principle of competency?

- A. Internal auditors shall perform their work with honesty, diligence, and responsibility.
- B. Internal auditors shall perform their work in accordance with the Standards.
- C. Internal auditors shall perform their work in accordance with the law and make disclosures expected by the law.
- D. Internal auditors shall be prudent in the use of information acquired while performing their work.

Answer: B

NEW QUESTION 9

Which of the following behaviors could represent a significant ethical risk if exhibited by an organization's board?

- A. Requesting a private meeting with senior management, without the presence of the chief audit executive.
- B. Intervening during an audit involving ethical wrongdoing.
- C. Discussing periodic reports of ethical breaches.
- D. Authorizing an investigation of an unsafe product.

Answer: B

NEW QUESTION 10

What is the additional advantage of facilitated workshops, in comparison with structured interviews, used when testing the effectiveness of entity-level controls?

- A. During facilitated workshops, people more openly say things to internal auditors than during private interviews.
- B. Internal auditors do not need other sources of information, as the data gathered during facilitated workshops is sufficient.
- C. Facilitated workshops create a synergy of discussion that can bring multiple perspectives to the same issue.
- D. The testimonial evidence obtained during facilitated workshops is generally considered more reliable.

Answer: C

NEW QUESTION 10

An internal audit team is performing an audit of workplace accident claims.
Which of the following actions by the audit team best demonstrates due professional care?

- A. Having an occupational health officer on the engagement team.
- B. Determining that the claims have been classified properly.
- C. Placing reliance on medical reports from the injured worker's doctor.
- D. Reviewing claims to ensure all accidents actually occurred in the workplace.

Answer: A

NEW QUESTION 13

Which of the following factors should be considered when determining the appropriate combination of manual techniques and computer-assisted audit techniques (CAATs) to be used during an audit?

- * 1. Acceptance of CAATs findings by entity management.
- * 2. Computer knowledge and expertise of the auditor.
- * 3. Time constraints.
- * 4. Level of audit risk.

- A. 1 and 4
- B. 2 and 3 only
- C. 1, 2, and 3
- D. 2, 3, and 4

Answer: D

NEW QUESTION 16

Reviewing prior audit reports and supporting workpapers before an engagement starts enables an internal auditor to do which of the following?

- * 1. To understand better the activity and processes that will be audited.
- * 2. To identify the audit procedures that will be used during the engagement.
- * 3. To ensure that matters of greatest vulnerability will be addressed.
- * 4. To use the information obtained as evidence in the current engagement.

- A. 4 only
- B. 1 and 3 only
- C. 1 and 4 only
- D. 2, 3, and 4 only

Answer: B

NEW QUESTION 19

Which of the following describes a key characteristic related to effective organizational communication?

- A. Comprehensive supervisory and verification procedures.
- B. A well-designed system of internal controls.
- C. A culture of integrity and transparency.
- D. Unique operating environments with varying complexity.

Answer: B

NEW QUESTION 21

Which of the following is an example of a risk management avoidance response?

- A. Exiting a marketplace.
- B. Recalling a product.
- C. Obtaining product insurance.
- D. Outsourcing production.

Answer: A

NEW QUESTION 23

Which of the following must be in existence as a precondition to developing an effective system of internal controls?

- A. A monitoring process.
- B. A risk assessment process.
- C. A strategic objective-setting process.
- D. An information and communication process.

Answer: B

NEW QUESTION 28

According to The IIA's Code of Ethics, which of the following actions violates the principle of confidentiality?

- A. Accepting a consulting request in the IT department without possessing the requisite experience.
- B. Providing personal tax preparation services for a fee for several employees during the lunch hour.
- C. Providing a friend with the marketing strategic plan, which she will use to prepare her university thesis.
- D. Agreeing to reword an observation to avoid the client complaining directly to the auditor's supervisor.

Answer: C

NEW QUESTION 32

Which of the following situations is most likely to impair internal audit objectivity?

- A. An internal auditor reports both functionally and administratively to the chief financial officer (CFO).
- B. An internal auditor, who was an accounts receivable intern for the organization three years prior, performs an audit of the accounts receivable cycle.
- C. According to policy, the internal auditor must obtain approval from the CFO prior to requesting information for internal audit purposes.
- D. An internal auditor performs an audit in a department that is led by the auditor's close friend.

Answer: D

NEW QUESTION 35

Which of the following is an example of collusion?

- A. An employee includes a faked receipt in his expense claim, and the claim is signed by the employee's manager.
- B. A vendor inflates the price of an item and remits a portion of the excess to the purchasing manager.
- C. A vendor sends a duplicate invoice with a new invoice number, and the accounts payable system fails to detect the duplication.
- D. An employee works with the IT manager to develop a program for identifying duplicate invoice payments.

Answer: B

NEW QUESTION 37

A headquarters-based internal auditor has been sent to a major overseas subsidiary to conduct various engagements. Initially, the internal auditor spends time to become familiar with local customs and organization's practices while embarking on the first engagement. Which of the following competencies does the internal auditor exercise?

- A. Communication.
- B. Persuasion and collaboration.
- C. Business acumen.
- D. Governance, risk, and control.

Answer: A

NEW QUESTION 39

Which of the following is the most common way that occupational fraud is detected?

- A. Internal audits.
- B. Whistleblower hotline.
- C. Key controls.

D. External audits.

Answer: B

NEW QUESTION 40

Which of the following combinations of conditions is most likely a red flag for fraud?

- A. The practice of surprise audits and the implementation of an employee support program.
- B. Hiring an employee with a prior fraud conviction and yearly management review.
- C. Occasional accounting department overrides and discontinuation of the anonymous fraud hotline due to infrequent use.
- D. A veteran employee in upper management experiencing financial difficulties and recently implemented enhanced controls.

Answer: C

NEW QUESTION 42

An internal audit charter, approved by the board, restricts the internal audit activity to providing assurance only on the reliability of financial information and the effectiveness of internal accounting controls. Which of the following statements is true regarding the extent to which the external auditor may rely on the internal audit activity's work?

- A. The external auditor may make full use of the work, as the audit charter is very specific as to the work the internal audit activity may undertake.
- B. The external auditor may use the work, as the board has approved the charter, thus taking responsibility for any deficiencies.
- C. The external auditor must disregard the work, as the scope of the charter may introduce bias and result in a lack of due professional care.
- D. The external auditor may use the work with caution, due to the internal audit activity's scope and responsibility restrictions.

Answer: D

NEW QUESTION 44

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

- A. Compliance.
- B. Accuracy.
- C. Efficiency.
- D. Validation.

Answer: D

NEW QUESTION 45

Which of the following is the primary engagement responsibility of an entry-level internal auditor?

- A. Leadership.
- B. Documentation.
- C. Analysis.
- D. Reporting.

Answer: C

NEW QUESTION 46

Which of the following scenarios best illustrates the principle of due professional care?

- A. An internal auditor evaluates the significant risks arising from a consulting engagement.
- B. An internal auditor declares that he would have a conflict of interest in providing planned audit support.
- C. An internal auditor has been given sufficient authority to access documents needed to make an appraisal of an issue.
- D. An internal auditor uses technology-based audit techniques to ensure that all significant risks are identified.

Answer: A

NEW QUESTION 47

Which of the following activities is most likely to require a fraud specialist to supplement the knowledge and skills of the internal audit activity?

- A. Planning an engagement of the area in which fraud is suspected.
- B. Employing audit tests to detect fraud.
- C. Interrogating a suspected fraudster.
- D. Completing a process review to improve controls to prevent fraud.

Answer: B

NEW QUESTION 51

Which of the following is an example of a directive control?

- A. Segregation of duties.
- B. Exception reports.
- C. Incentive compensation plans.
- D. Automated reconciliations.

Answer: C

NEW QUESTION 55

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annual snowfall for the coming winter. Which of the following best describes this type of risk?

- A. Residual.
- B. Net.
- C. Inherent.
- D. Accepted.

Answer: C

NEW QUESTION 60

According to IIA guidance, which of the following scenarios demonstrates an internal auditor exercising due professional care?

When auditing investments, the auditor identified instruments with which he was unfamiliar. He decided not to select that type of investment in his sample, as he did not have the knowledge needed to

- A. perform a proper assessment.
- B. An auditor was reviewing inventory counts conducted by the warehouse staff
- C. One truck containing an immaterial amount of inventory was off-site and wasn't verified by the auditor.
- D. An auditor visited a plant that produces a significant portion of the organization's inventory
- E. The day he arrived, the plant manager was out sick, so the auditor issued the report without interviewing the manager.
- F. An auditor in charge needed to have testing completed by the end of the month, but was behind schedule
- G. He identified a junior auditor to conduct the work for him on a complex area of the organization.

Answer: A

NEW QUESTION 63

Sometimes, internal audit staff may partner with operating managers to rank risks. Which of the following outcomes may be the most beneficial aspects of this strategy?

- * 1. Reappraising risks levels.
- * 2. Providing accurate information to management.
- * 3. Marketing the internal audit activity.
- * 4. Planning safeguards for assets in high-risk areas.

- A. 1 and 2.
- B. 1 and 3.
- C. 2 and 3.
- D. 3 and 4.

Answer: B

NEW QUESTION 66

Upon joining the internal audit activity, each new auditor receives a copy of the audit handbook. Which of the following handbook policies has the greatest risk of compromising audit objectivity?

- A. Internal auditors should obtain 80 hours of continuing professional education every two years, 20 of which should be audit-related, and the remainder may be operations-related.
- B. Internal auditors should rotate to other areas of the organization for nonaudit assignments to gain an understanding of the organization's operations.
- C. Internal auditors should have direct and unrestricted access to personnel and information throughout the organization and the governing board.
- D. Internal auditors should undergo annual performance appraisals conducted by the chief audit executive, who reports administratively to the chief financial officer.

Answer: B

NEW QUESTION 67

Which of the following items should the chief audit executive disclose to senior management regarding the results of the internal audit activity's quality assessments?

- A. The internal audit activity's plan for resource allocation.
- B. The amount of the organization's potential loss prevented by the risk-based auditing of the internal audit activity.
- C. The number of audits from the annual internal audit plan that were completed last year.
- D. The qualifications and independence of the assessment Team.

Answer: B

NEW QUESTION 69

Which of the following is an example of a risk avoidance strategy?

- A. Hedging against exchange rate variations.
- B. Limiting access to an organization's data center.
- C. Selling a nonstrategic business unit.
- D. Outsourcing a high-risk activity.

Answer: C

NEW QUESTION 70

According to IIA guidance, which of the following statements is true when an internal auditor performs consulting services that improve an organization's operations?

- A. The services must be aligned with those defined in the internal audit charter.
- B. The services must not be performed by the same internal auditor who performed assurance services, in order to maintain objectivity.
- C. The services may preclude assurance services from the consulting engagement.
- D. The services impose no responsibility to communicate information other than to the engagement client.

Answer: B

NEW QUESTION 73

When developing the organization's first risk universe, which of the following would the chief audit executive be least likely to consider?

- A. The amount of risk that an organization is willing to seek or accept.
- B. The extent and degree of interdependency for identified key risks.
- C. The boundaries established to manage the amount of risk taken.
- D. The exposure to risks following management's risk responses.

Answer: D

NEW QUESTION 74

According to The MA Global Internal Audit Competency Framework, which of the following areas of training would best assist the internal audit activity in improving its use of tools and techniques?

- A. Negotiation and conflict resolution.
- B. Project management.
- C. Financial accounting.
- D. Ethics and fraud.

Answer: B

NEW QUESTION 78

Which segregation of duties would best reduce the risk of payroll fraud?

- A. Human resources personnel add employees, and payroll personnel process hours and enter employee bank account number
- B. Paychecks are automatically deposited in the employee's bank account.
- C. Human resources personnel add employees, payroll personnel process hours, and human resources personnel deliver paychecks to employees.
- D. Human resources personnel add employees, review and submit payroll hours to the payroll department for processing, and deliver paychecks to employees.
- E. Human resources personnel add employees and enter employee bank informatio
- F. Payroll personnel process hours, and paychecks are automatically deposited in the employee's bank account.

Answer: A

NEW QUESTION 80

According to IIA guidance, when preparing the charter for the internal audit activity, the chief audit executive (CAE), board, and senior management should agree on which of the following?

- * 1. The standards to be used by the internal audit activity.
- * 2. The internal audit activity's code of ethics.
- * 3. The CAE's reporting line.
- * 4. The internal audit activity's responsibilities.

- A. 4 only.
- B. 1 and 2 only.
- C. 3 and 4.
- D. 1,2, and 3.

Answer: C

NEW QUESTION 82

An IT contractor applied for an internal audit position at a bank. The contractor worked for the bank's IT security manager two years ago. If the audit manager interviewed the contractor and wants to extend a job offer, which of the following actions should the chief audit executive pursue?

- A. Allow the audit manager to hire the contractor and state that the individual is free to perform IT audits, including security.
- B. Not allow the audit manager to hire the contractor, as it would be a conflict of interest.
- C. Allow the audit manager to hire the contractor, but state that the individual is not allowed to work on IT security audits for one year.
- D. Not allow the audit manager to hire the contractor and ask the individual to apply again in one year.

Answer: A

NEW QUESTION 83

In which of the following functions would fraud be most likely to occur?

- A. Maintaining custody of inventory records.
- B. Collecting payments on accounts.
- C. Approving changes to employee records.
- D. Preparing customer statements.

Answer: B

NEW QUESTION 84

According to The MA Code of Ethics, which of the following is one of the rules of conduct for objectivity?

- A. Internal auditors shall continually improve their proficiency and effectiveness and quality of their services.
- B. Internal auditors shall respect and contribute to legitimate and ethical objectives of the organization.
- C. Internal auditors shall not accept anything that may impair or be presumed to impair their professional judgment.
- D. Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties.

Answer: C

NEW QUESTION 85

An internal audit activity is using the auditing-by-element approach to audit the organization's controls around corporate social responsibility. Which of the following would be an element for the internal audit activity to consider?

- A. Working conditions.
- B. Employees' families.
- C. Marketplace competition.
- D. Shareholders and investors.

Answer: B

NEW QUESTION 86

While performing an accounts payable engagement, a senior auditor wants to conduct several tests of controls for travel expenses. Which of the following actions are most appropriate for the senior auditor to undertake?

- * 1. Ensure all tests use a random sampling technique.
- * 2. Consider a judgmental approach for the sample size.
- * 3. Assess testing errors through root cause analysis.
- * 4. Ensure that the entire data set is tested.

- A. 1 and 2.
- B. 1 and 3.
- C. 2 and 3.
- D. 2 and 4.

Answer: C

NEW QUESTION 91

Which of the following professional development approaches would offer internal auditors the most opportunities to broaden their engagement experiences?

- A. Assign more experienced internal auditors to mentor the less experienced auditors.
- B. Send internal auditors to external trainings in advanced internal audit topics.
- C. Appraise internal auditors' performance and competencies at least annually and issue constructive feedback.
- D. Rotate internal auditors among different engagement assignments.

Answer: D

NEW QUESTION 96

A large sales organization maintains a system of internal control according to the COSO model and has updated its code of conduct. This change relates to which component of the COSO framework?

- A. Control activities.
- B. Information and communication.
- C. Commitment.
- D. Control environment.

Answer: D

NEW QUESTION 99

An organization is beginning to implement an enterprise risk management program. One of the first steps is to develop a common risk language. Which of the following statements about a common risk language is true?

- A. Management will be able to reduce inherent risk because they will have a better understanding of risk.
- B. Internal auditors will be able to reduce their sample sizes because controls will be more consistent.
- C. Stakeholders will have more assurance that the risks are assessed consistently.
- D. Decision makers will understand that the likelihood of missing or ineffective controls will be reduced.

Answer: C

NEW QUESTION 102

According to IIA guidance, which of the following is least compliant with the requirements regarding an internal auditor's need for objectivity?

- A. An internal auditor assessed the effectiveness of controls over payroll software, which he had helped implement with a previous employer.
- B. An internal auditor participated in an audit of controls around absenteeism, despite providing some consultation on controls in this area earlier in the year.

- C. An internal auditor performed an assurance engagement for the effectiveness of accounts payable access controls, one of which he previously helped to design.
- D. An internal auditor, previously employed in the quality assurance operations area, performed a consulting engagement for the operations manager.

Answer: C

NEW QUESTION 103

According to IIA guidance, which of the following statements is true regarding the reporting of results from an external quality assessment of the internal audit activity?

- A. The external assessment results are reported upon completion in confidence directly to the board, and senior management is advised only of the recommendations and improvement action plans.
- B. The results of self-assessments with independent external validation are shared with the board upon completion, and monitoring of recommended improvements must be reported monthly.
- C. The external assessment results are communicated upon completion to senior management and the board, but action plans for recommended improvements do not have to be reported.
- D. The requirements for reporting quality assessment results are the same for external assessments and self-assessments with independent external validation.

Answer: B

NEW QUESTION 108

An internal auditor is evaluating techniques management uses to mitigate risks within a particular product division. Which of the following is an example of risk reduction?

- A. Management sells the product division to a competitor.
- B. Management outsources the product division to a third party.
- C. Management allows the product division to remain unchanged.
- D. Management modifies the product division to minimize errors.

Answer: D

NEW QUESTION 109

An organization decides to take no action on one of its financial risks because the cost of implementing the control outweighs the value of the asset being protected. Which of the following best describes this risk strategy?

- A. Risk avoidance.
- B. Risk-benefit analysis.
- C. Risk sharing.
- D. Risk acceptance.

Answer: D

NEW QUESTION 112

Which of the following is most likely to be considered a control weakness?

- A. Vendor invoice payment requests are accompanied by a purchase order and receiving report.
- B. Purchase orders are typed by the purchasing department using prenumbered forms.
- C. Buyers promptly update the official vendor listing as new supplier sources become known.
- D. Department managers initiate purchase requests that must be approved by the plant superintendent.

Answer: C

NEW QUESTION 115

A large trucking organization wants to reduce traffic accidents by improving its system of internal controls. Which of the following controls is correctly classified?

- * 1. Review of speeding violations to identify repetitive locations and drivers is an example of a preventive control.
- * 2. Defensive driver training is an example of a directive control.
- * 3. The installation of tracking devices in delivery vehicles is an example of a corrective control.
- * 4. Providing a vehicle driver handbook is an example of a detective control.

- A. 1 and 2.
- B. 1 and 4.
- C. 2 and 3.
- D. 3 and 4.

Answer: A

NEW QUESTION 119

An internal auditor in a small broadcasting organization was assigned to review the revenue collection process. The auditor discovered that some checks from three customers were never recorded in the organization's financial records. Which of the following documents would be the least useful for the auditor to verify the finding?

- A. Bank statements.
- B. Customer confirmation letters.
- C. Copies of sales invoices.
- D. Copies of deposit slips.

Answer: D

NEW QUESTION 120

An internal audit charter should do which of the following?

- A. Outline the schedule of future audits.
- B. Define the scope of internal audit activities.
- C. Establish the size of the internal audit activity.
- D. Communicate the internal audit activity's goals.

Answer: B

NEW QUESTION 125

If appropriate safeguards exist, which of the following is considered a legitimate internal audit role within risk management at an organization?

- A. Imposing risk management processes.
- B. Providing consolidated reporting on risks.
- C. Taking accountability for risk management.
- D. Making decisions on risk responses.

Answer: B

NEW QUESTION 127

During an audit engagement, the internal auditor discussed a risk mitigation recommendation with the manager of the area under review. The manager disagreed with the risk assessment and recommendation. The two failed to come up with an alternative solution, and the auditor decided to proceed with including the original recommendation in the engagement report. Which of the following is especially important in dealing with this type of situation?

- A. Soft skills in communication, negotiation, and collaboration.
- B. Technical skills in the area under review.
- C. Professional qualifications and certification in internal auditing.
- D. Confidentiality and independence.

Answer: A

NEW QUESTION 132

A former line supervisor from the Financial Services Department has completed six months of a two-year development opportunity with the internal audit activity (IAA). She is assigned to a team that will audit the organization's payroll function, which is managed by the Human Resources Department. Which of the following statements is most relevant regarding her independence and objectivity with respect to the payroll audit?

- A. She may participate, but only after she has completed one year with the IAA.
- B. She may participate, because she did not previously work in the Human Resources Department.
- C. She may participate, but she must be supervised by the auditor in charge.
- D. She may participate for training purposes, to build her knowledge of the IAA.

Answer: B

NEW QUESTION 134

Management would like to self-assess the overall effectiveness of the controls in place for its 200-person manufacturing department. Which of the following client-facilitated approaches is likely to be the most efficient way to accomplish this objective?

- A. Workshops.
- B. Surveys.
- C. Interviews.
- D. Observation.

Answer: B

NEW QUESTION 139

According to IIA guidance, which of the following is an area in which the internal auditor should be proficient?

- A. Management principles.
- B. Computerized information systems.
- C. Internal audit standards, procedures, and techniques.
- D. Fundamentals of accounting, economics, and finance.

Answer: C

NEW QUESTION 143

In the area of business acumen, which of the following competencies would be the sole responsibility of an internal audit staff member?

- A. Maintaining industry-specific knowledge appropriate to the organization.
- B. Assessing how IT contributes to organization objectives, risks, and relevance to audit.
- C. Maintaining technical aspects of accounting standards and reporting processes.
- D. Understanding regulatory and legal framework and assessing its relevance.

Answer: D

NEW QUESTION 144

Which of the following is considered a violation of The IIA's Code of Ethics?

- A. An auditor conveys public information about an organization's financial condition.
- B. An auditor reports a manager's illegal activity to senior management, rather than reporting the incident to the appropriate external authority.
- C. An auditor receives allegations of fraud from a whistleblower and immediately reports the allegations to senior management.
- D. An auditor reports material deficiencies, despite the fact that management is already aware of the defects.

Answer: C

NEW QUESTION 148

According to the COSO internal control framework, which of the following best describes the use of continuous auditing programs by the internal audit activity?

- A. Control environment.
- B. Control activities.
- C. Risk assessment.
- D. Monitoring.

Answer: D

NEW QUESTION 151

An auditor identifies three errors in the sample of 25 entries selected for review (a 12 percent error rate). Based on this result, the auditor assumes that approximately 59 of the total population of 492 entries are incorrect. To reach this assumption, the auditor has used a technique known as which of the following?

- A. Variability tolerance.
- B. Ratio estimation.
- C. Stratification.
- D. Acceptance sampling.

Answer: B

NEW QUESTION 155

Which of the following are generally recognized as essential elements of a corporate social responsibility program?

- A. Human rights and the environment.
- B. Organizational governance and financial reporting.
- C. Fair operating practices and government regulation.
- D. Consumer issues and return on investment.

Answer: A

NEW QUESTION 160

An assurance mapping exercise helps an organization do which of the following?

- * 1. Provide assurance to stakeholders that risks are managed and reported, and regulatory and legal obligations are met.
- * 2. Fulfill best practices in the industry.
- * 3. Identify and address any gaps in the risk management process.
- * 4. Identify fraud.

- A. 1 and 4.
- B. 1 and 3.
- C. 2 and 3.
- D. 3 and 4.

Answer: B

NEW QUESTION 163

Which of the following controls could an internal auditor reasonably conclude is effective by observing the physical controls of a large server room?

- A. Adequate signs are in place to assist in locating safety equipment.
- B. Servers are secured individually to their racks by locks.
- C. Foam fire extinguishers are operable to protect against electrical fires.
- D. Swipe card access is required to gain access to the server room.

Answer: A

NEW QUESTION 166

An internal auditor wants to sample data to test an audit theory in a cost-effective way. Which of the following sampling strategies should she use?

- A. Statistical sampling only
- B. Nonstatistical sampling only
- C. A combination of both statistical and nonstatistical sampling.
- D. Neither approach to testing the audit theory would be cost effective.

Answer: B

NEW QUESTION 171

According to IIA guidance, which of the following should be formally documented in the internal audit charter?

- A. The internal audit activity's responsibility for imposing risk management processes.
- B. The internal audit activity's responsibility for the organization's governance framework.
- C. The nature of consulting services provided by the internal audit activity.
- D. The budgeting process for the internal audit activity.

Answer: C

NEW QUESTION 174

Which of the following best ensures the independence of the internal audit activity?

- * 1. The CEO and audit committee review and endorse any changes to the approved audit plan on an annual basis.
- * 2. The audit committee reviews the performance of the chief audit executive (CAE) periodically.
- * 3. The internal audit charter requires the CAE to report functionally to the audit committee.

- A. 3 only
- B. 1 and 2 only
- C. 2 and 3 only
- D. 1, 2, and 3

Answer: C

NEW QUESTION 179

According to IIA guidance, which of the following are macro-level audit activities performed for an assurance engagement of the purchasing department?

- * 1. Obtain and review all purchasing-related audit reports issued within the past year.
- * 2. Meet with the quality assurance group to discuss its previous reports of any purchasing-related findings.
- * 3. Review a memo written by the purchasing manager that outlines ongoing problems with the purchasing software.
- * 4. Request a copy of the report from a purchasing audit conducted last year by an external service provider.

- A. 1 and 2.
- B. 1 and 3.
- C. 2 and 4.
- D. 3 and 4.

Answer: A

NEW QUESTION 183

While preparing for an audit of senior management expenses, the chief audit executive (CAE) learns that management is unable to locate a number of original expense claims to support the related disbursements. She decides to defer the engagement until they can be located. Which of the following principles likely guided the CAE's decision?

- A. Objectivity.
- B. Proficiency.
- C. Independence.
- D. Due professional care.

Answer: D

NEW QUESTION 186

Which of the following would be the most appropriate first step for the board to take when developing an effective system of governance?

- A. Determine the organization's overall risk appetite.
- B. Establish a governance committee.
- C. Delegate authority to members of senior management.
- D. Identify key stakeholders and their expectations.

Answer: D

NEW QUESTION 188

The security department uncovered what appears to be a complex fraud in the accounting department. The CEO has requested the internal audit activity to investigate the fraud. If the internal audit staff lacks the expertise to conduct the investigation, how should the chief audit executive proceed?

- A. Disclose the deficiency, and request that the investigation be reassigned to the first line of defense.
- B. Proceed with the investigation, as internal auditors are not required to have fraud expertise.
- C. Outsource the sensitive investigation to a third-party consultant with fraud expertise.
- D. Select a member of the accounting department who is not involved in the fraud to join the investigation team in a consulting capacity.

Answer: C

NEW QUESTION 190

An internal auditor is conducting an assessment of the organization's fraud prevention program using the COSO enterprise risk management framework. According to this framework, which of the following activities would fall under the control environment component for preventing fraud?

- * 1. The organization uses an automated authority approval matrix to control payments.
- * 2. The organization has a whistleblower hotline that is available to employees.
- * 3. Annually, every manager completes a comprehensive fraud assessment of his or her department.

* 4. Annually, the organization reviews and communicates the code of expected behavior.

- A. 1 and 2.
- B. 1 and 3.
- C. 2 and 3.
- D. 2 and 4.

Answer: D

NEW QUESTION 192

A new internal audit activity is creating its first charter. According to IIA guidance, which of the following objectives would be appropriate for inclusion in the charter?

- A. Continuously monitor the organization's overall risk activities in relation to its risk appetite.
- B. Evaluate the adequacy and effectiveness of the organization's governance activities.
- C. Oversee the establishment and administration of an effective risk management program.
- D. Assist management in implementing recommended control improvements.

Answer: C

NEW QUESTION 196

A furniture manufacturer has installed a new fire sprinkler system at its central warehouse and canceled the existing fire insurance policy on that property. What change of risk response strategy does this course of action most likely reflect?

- A. From sharing to reduction.
- B. From acceptance to reduction.
- C. From sharing to avoidance.
- D. From acceptance to avoidance.

Answer: A

NEW QUESTION 197

What is the primary benefit to the internal audit activity for undertaking an internal quality assessment?

- A. To help the internal audit activity complete its annual assurance plan.
- B. To identify inefficiencies within the internal audit team.
- C. To help improve the overall quality of the internal audit activity's work.
- D. To identify key risks and areas of concern within the organization.

Answer: C

NEW QUESTION 202

A chief audit executive (CAE) reports functionally to the CEO and administratively to the chief financial officer, both of whom serve on the company's board of directors. According to IIA guidance, which of the following would offer the greatest protection for the independence of the internal audit activity?

- A. Appoint the CAE as a member of the board.
- B. Move the CAE's functional reporting to an executive who is not on the board.
- C. Obtain full board approval of the internal audit activity's annual audit plan.
- D. Move the CAE's functional reporting to the audit committee.

Answer: D

NEW QUESTION 204

According to IIA guidance, which of the following should be included in the internal audit charter?

- A. The minimum resources and competencies needed for the internal audit activity.
- B. Identification of the organizational units where engagements are to be performed.
- C. Organizational relationships and reporting lines.
- D. Assigned responsibilities for designing and implementing controls.

Answer: C

NEW QUESTION 208

Which of the following is a common type of payroll fraud?

- A. Unauthorized overtime.
- B. Fictitious employees.
- C. Unearned bonuses or commissions.
- D. Skimming.

Answer: B

NEW QUESTION 209

The management at a national consumer goods organization implements a fair work and pay practice as well as a policy to treat employees equitably and consistently. Which common characteristics of fraud will the practice and policy most likely reduce?

- A. Pressure or incentive.
- B. Opportunity.
- C. Rationalization.
- D. Commitment.

Answer: A

NEW QUESTION 214

According to IIA guidance, which of the following statements is true regarding periodic internal assessments of the internal audit activity?

- A. Internal assessments are conducted to benchmark the internal audit activity's performance against industry best practices.
- B. Internal assessments must be performed at least once every five years by a qualified assessor.
- C. An internal auditor may perform a peer review of a colleague's workpapers, as long as the auditor wasn't involved in the audit under review.
- D. Follow-up to ensure appropriate improvements are implemented is a recommended, but not mandatory, element of internal assessments.

Answer: C

NEW QUESTION 216

Faced with a complex, highly technical construction audit engagement, the chief audit executive (CAE) considered complementing the current internal audit resources by engaging the services of a civil engineer.

Which of the following should the CAE consider in determining whether the engineer possesses the necessary skills to perform the engagement?

- * 1. Professional certification, license, or other recognition of the engineer's competence in the relevant discipline.
- * 2. Experience of the engineer in the type of work being considered.
- * 3. Compensation or other incentives that the engineer may receive.
- * 4. The extent of other ongoing services that the engineer may be performing for the organization.

- A. 1 and 4 only
- B. 2 and 3 only
- C. 3 and 4 only
- D. 1, 2, and 4 only

Answer: D

NEW QUESTION 219

Which of the following responsibilities would fall under the role of the chief audit executive, rather than internal audit staff or the audit manager?

- A. Manage and support a quality assurance and improvement program.
- B. Maintain industry-specific knowledge appropriate to the audit engagements
- C. Set clear performance standards for internal auditors and the internal audit activity.
- D. Apply problem-solving techniques for routine situations.

Answer: C

NEW QUESTION 222

Which of the following factors have the greatest influence on the independence of the internal audit activity?

- A. Quality assessments and cultural biases of the internal audit activity.
- B. Rotational assignments and familiarity of the internal audit activity.
- C. Employee incentives and self review of the internal audit activity.
- D. Organizational positioning and scope control of the internal audit activity.

Answer: D

NEW QUESTION 226

What should the internal auditor's role be in assessing the organization's ethical climate?

- A. Perform ongoing surveys of the employees, customers, and partners of the organization to assess the organization's ethical climate
- B. Evaluate the effectiveness of the organization's strategies and
- C. processes for achieving the desired level of legal and ethical compliance.
- D. Maintain a whistleblower hotline to identify inappropriate or illegal activity within the organization.
- E. Perform background checks of potential new employees before they are hired by the organization.

Answer: B

NEW QUESTION 227

An organization has implemented a software system that requires a supervisor to approve transactions that would cause treasury dealers to exceed their authorized limit. This is an example of which of the following types of controls?

- A. Preventive controls.
- B. Detective controls.
- C. Soft controls.
- D. Directive controls.

Answer: A

NEW QUESTION 230

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