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Exam Name: Certified Internal Auditor - Part 1, The Internal Audit Activity Role in Governance, Risk, and Control



Exam A

QUESTION 1

According to MA guidance, which of the following gives the internal audit activity the authority to request supporting documentation for the invoices of a third-party service provider?

- A. The internal audit policy manual.
- B. The internal audit charter.
- C. The board of directors.
- D. The quality assurance and improvement program.

Correct Answer: B

Section:

QUESTION 2

Which of the following is a responsibility of the internal audit activity as it relates to risk and risk management?

- A. Evaluating and suggesting improvements to the risk management process.
- B. Establishing the organization's risk appetite.
- C. Determining whether the risk attitude is aligned with shareholder interests.
- D. Ensuring an adequate risk management system is in place.

Correct Answer: D

Section:



QUESTION 3

In addition to her internal audit activity responsibilities, the chief audit executive has been asked to oversee the organization's insurance function. Which of the following responses is most appropriate?

- A. Welcome the additional responsibility, as it represents an opportunity to gain more information for future audits.
- B. Revise the internal audit charter to include oversight of the insurance function, ensuring that all of her responsibilities are properly documented.
- C. Report the request to the board and recommend alternate processes to obtain assurance related to insurance activities.
- D. Promptly remove the organization's insurance function from the audit universe.

Correct Answer: B

Section:

QUESTION 4

Which of the following actions by an internal auditor would be the most relevant to determine the effectiveness of controls?

- A. Participate in a fraud risk-assessment session as an in-house facilitator.
- B. Send regular written updates to senior management on new control-related regulations.
- C. Lead a seminar on internal controls and provide numerous examples to the audience.
- D. Conduct a surprise inventory count at the raw materials warehouse.

Correct Answer: D

Section:

QUESTION 5

Which of the following would be the most suitable internal control framework for an organization to adopt?

- A. A framework that specifies common best practices for an organization to evaluate and benchmark.
- B. A framework that specifies correct and incorrect business methodologies.
- C. A framework with precise specifications for how controls and processes should be employed.
- D. A framework that offers step-by-step guidance for remedial action for all organization types.

Correct Answer: A

Section:

QUESTION 6

Which of the following scenarios best illustrates the Fraud Triangle component known as "perceived opportunity"?

- A. Substantial bonuses are awarded if financial targets are met.
- B. Duties are not properly segregated.
- C. Employees may perceive favoritism and feel overlooked and resentful.
- D. Bonuses may not be paid this year.

Correct Answer: B

Section:

QUESTION 7

Which of the following is most important for an internal auditor to consider when developing an approach for an audit engagement in a foreign country?

- A. Currency exchange rates, as they relate to internal audit-related expenses.
- B. Differences in typical working hours, compared to other countries.
- C. The effects of subtle language nuances on translations.
- D. Accepted practices that may be illegal in other countries.

Correct Answer: D

Section:

QUESTION 8

A third-party provider's questionable labor practices have exposed the organization to reputational risks and regulatory risks. Which of the organization's risk management practices was most likely ineffective?

- A. The organization ensured that the third-party vendor provided the best pricing for the requested services.
- B. The organization conducted quality control reviews of provided services to ensure industry standards were met.
- C. The organization performed a due diligence review of all vendors during the bid review process.
- D. The organization planned to issue a resolution concerning the third-party provider's labor practices.

Correct Answer: A

Section:

QUESTION 9



According to IIA guidance, which of the following training methods is considered most effective in assisting new entry-level internal auditors in achieving competence with internal audit practices in the workplace?

- A. Pursuance of an internal audit certification.
- B. Enrollment in internal audit practice webinars.
- C. Attendance of internal audit workshops.
- D. Involvement in a variety of audit assignments.

Correct Answer: D

Section:

QUESTION 10

Which of the following is part of a fraud detection program?

- A. Whistleblower hotline.
- B. Authority limits.
- C. Background investigations
- D. Evaluation of compensation programs.

Correct Answer: A

Section:

QUESTION 11

Which of the following is the best reason why the engagement supervisor should take care in explaining to local management the criteria that will be used to measure the effectiveness of the control environment?

- A. The assessment will cover soft controls and company values.
- B. The assessment will focus on the policy for a particular process.
- C. The assessment will lack a defined scope
- D. The assessment will probably uncover fraud risks.

Correct Answer: A

Section:

QUESTION 12

Which of the following statements is true with regard to services provided by the internal audit activity?

- A. For consulting engagements, internal auditors do not need to be alert to control issues.
- B. Assurance and consulting services have similar objectives.
- C. Internal auditors may not perform assurance and consulting roles at the same time.
- D. Both assurance and consulting engagements require a final engagement report

Correct Answer: D

Section:

QUESTION 13

The internal audit activity completed its analysis of sample transactions to determine occurrences of double billings According to If A guidance, which of the following best demonstrates that internal auditors exercised due professional care during the review?

- A. Internal auditors found no instances of double billing and concluded there were no significant risks in this area.
- B. Internal auditors documented the scope and methodology of the data testing.
- C. Internal auditors discussed with management how data is safeguarded.
- D. Internal auditors received formal performance feedback from the engagement supervisor.

Correct Answer: B

Section:

QUESTION 14

While auditing an organization's credit approval process, an internal auditor learns that the organization has made a large loan to another auditor's relative. Which course of action should the auditor take?

- A. Proceed with the audit engagement, but do not include the relative's information.
- B. Have the chief audit executive and management determine whether the auditor should continue with the audit engagement.
- C. Disclose in the engagement final communication that the relative is a customer.
- D. Immediately withdraw from the audit engagement.

Correct Answer: B

Section:

QUESTION 15

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.

Correct Answer: C

Section:

QUESTION 16

An internal audit activity includes in its audit reports the assertion that its work is performed in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). A recent external quality assessment concluded that the internal audit activity had substantial deficiencies that impact its overall operations.

According to IIA guidance, which of the following is the most appropriate action for issuing future audit reports?

- A. Refrain from indicating that the internal audit activity operates in conformance with the Standards until the chief audit executive confirms that the internal audit activity has addressed all areas of nonconformance and the audit committee has been notified.
- B. Refrain from indicating that the internal audit activity operates in conformance with the Standards until another external assessment confirms that the significant areas of nonconformance have been addressed.
- C. Indicate that the internal audit activity operates in partial conformance with the Standards as the internal audit activity has a quality assurance and improvement program in place to address deficiencies and has met the requirement for conducting an external assessment.
- D. Update and reissue previous audit reports, removing the assertion that the internal audit activity operates in conformance with the Standards, and distribute them to all parties who received the original reports.

Correct Answer: A

Section:

QUESTION 17

Which of the following types of policies best helps promote objectivity in the internal audit activity's work?

- A. Policies that are distributed to all members of the internal audit activity and require a signed acknowledgment,
- B. Policies that match internal auditors' performance with feedback from management of the area under review.
- C. Policies that keep internal auditors in areas where they have vast audit expertise.
- D. Policies that provide examples of inappropriate business relationships.

Correct Answer: D

Section:

QUESTION 18

According to NA guidance, which of the following conditions would enhance the independence of the internal audit activity?

- A. The organizational culture rewards critical and objective thinking.
- B. The quality of work performed by the internal audit activity is periodically reviewed,
- C. The organization establishes effective governing body oversight,
- D. Audit assignments are rotated among internal audit staff

Correct Answer: C

Section:

QUESTION 19

A series of incidents over the past year reveals several members of senior management possess a limited understanding of the concept and impact of fraud. Which of the following would be the most effective way to approach this issue?

- A. The board should ask the internal audit activity to perform additional assurance engagements.
- B. A comprehensive fraud risk assessment and management program should be carried out.
- C. The organization should conduct training sessions on fraud, which should be attended by senior management and staff.
- D. Anti-fraud and whistleblowing policies should be implemented and their importance should be clearly stated.

Correct Answer: C

Section:

QUESTION 20

In which of the following situations may the internal audit activity report conformance with the Standards?

- A. An internal audit activity has been in existence at least five years and has not completed an external assessment,
- B. An internal auditor was assigned to an audit engagement but did not meet individual objectivity requirements.
- C. The internal audit activity prepared an internal audit plan that was not risk-based.
- D. The internal audit activity has been in existence fewer than five years, but periodic selfassessments were conducted.

Correct Answer: D

Section:

QUESTION 21

A chief audit executive (CAE) identifies that the internal audit activity lacks a necessary skill to perform a management request for a consulting engagement. According to IIA guidance, which of the following is the most appropriate action the CAE should take regarding the request?

- A. Assign the engagement to a more senior internal auditor.
- B. Decline the engagement request.
- C. Allow the internal auditors to acquire the needed skills while performing the engagement.
- D. Supervise the assigned internal auditors throughout the engagement.

Correct Answer: B

Section:

QUESTION 22

Which of the following statements best demonstrates application of due professional care during an assurance engagement?

- A. The engagement detected irregularities and noncompliance instances.
- B. The engagement supervisor had no significant comments in the supervisory review.
- C. The audit procedures were systematically planned, executed, and documented.
- D. The engagement objectives were designed to assist the engagement client.

Correct Answer: A

Section:

QUESTION 23

Which of the following best describes the risk contained in an initial public offering for a new stock?

- A. Residual risk.
- B. Net risk.
- C. Inherent risk.
- D. Underlying risk.

Correct Answer: C

Section:

QUESTION 24

An internal auditor is updating the risk register for risks identified during a recent organizational risk assessment. According to the Standards, which of the following would the auditor include in the risk register?

- A. Management's acceptance of inadequate controls for cybersecurity risk.
- B. Discussions with senior management relating to a new revenue stream.
- C. Mitigating controls implemented by the engagement supervisor
- D. Project manager planned hours versus time spent for all prior year projects

Correct Answer: A

Section:

QUESTION 25

Which of the following would be considered a monitoring activity in organization wide risk management?

- A. Validate the results of management's self-assessment.
- B. Perform reviews of personnel.



- C. Maintain rigorous and comprehensive documentation.
- D. Obtain authorizations and signatures.

Correct Answer: A

Section:

QUESTION 26

Which of the following documents are internal auditors most likely to be asked to sign as a demonstration of due professional care?

A description of their job responsibilities,

- A. A non-disclosure agreement.
- B. An annual declaration of commitment to
- C. The IIA's Code of Ethics.
- D. The internal audit charter.

Correct Answer: B

Section:

QUESTION 27

Which of the following processes does the board manage to ensure adequate governance?

- A. Establish and measure performance objectives for the internal audit activity.
- B. Select board members with necessary knowledge and skills.
- C. Develop, approve, and execute the strategic plan of the organization.
- D. Develop strategies to mitigate the risks to achieving the organization's objectives



Correct Answer: B

Section:

QUESTION 28

Which of the following best describes the internal audit activity's contribution to the implementation of the risk management framework?

- A. Internal audit identifies key risk areas during assurance reviews and provides audit findings.
- B. Internal audit assists with the prioritization of identified risks.
- C. Internal audit participates in setting the risk appetite.
- D. Internal audit takes part in the design of risk mitigation measures.

Correct Answer: A

Section:

QUESTION 29

During a review of employee benefits, a staff internal auditor observed an ambiguity in the incentive compensation policy. If reported, it could negatively impact the internal auditor's compensation.

Which of the following would encourage the internal auditor to be objective in his work?

- A. Periodic reinforcement of the internal audit activity's code of ethics disclosure practices.
- B. External assessments of the internal audit activity every five years.
- C. Audit committee review of every engagement report at the conclusion of the audit.

D. Internal audit charter approved by the board.

Correct Answer: D

Section:

QUESTION 30

During an assurance engagement, an internal auditor uses benchmarking research to support preparation of a report to stakeholders that contains significant findings about control deficiencies. Which of the following skills did the auditor demonstrate?

- A. Internal audit management.
- B. Conflict negotiation.
- C. Critical thinking.
- D. Persuasion and collaboration.

Correct Answer: C

Section:

QUESTION 31

An internal auditor observed that sales staff are able to modify or cancel an order in the system prior to shipping* She wonders whether they can also modify orders after shipping. Which of the following types of controls should she examine?

- A. Batch controls.
- B. Application controls.
- C. General IT controls.
- D. Logical access controls



Correct Answer: B

Section:

QUESTION 32

Which of the following statements best illustrates why internal auditors assess soft controls?

- A. Assessing soft controls are an effective method of assessing risk related to personnel.
- B. Assessing soft controls, as opposed to hard controls, makes it easier to evaluate operating effectiveness.
- C. Assessing soft controls can help internal auditors in undertaking root-cause analysis.
- D. Assessing soft controls provides more objective information than assessing hard controls.

Correct Answer: A

Section:

QUESTION 33

While conducting an engagement in the procurement department, the internal auditor noticed that the department head's travel reports showed minor travel expenses, and there were no charges for hotels, meals, or transportation. However, the auditor knew that the department head frequently traveled worldwide to meet with suppliers and visit their production sites. Which of the following would be the most appropriate next step for the auditor?

- A. The auditor should make a note of the issue for follow-up when employee travel expenses are audited.
- B. The auditor should analyze trends and changes among the organization's suppliers over the past few years.

- C. The auditor should investigate whether there are any special arrangements regarding senior management travel.
- D. The auditor should analyze the list of destinations the department head visited to estimate typical costs.

Correct Answer: C

Section:

QUESTION 34

Which of the following best illustrates the application of due professional care during an audit of the procurement department?

- A. The internal auditor began checking purchase requisitions for proper authorizations. He stopped when he discovered an instance of noncompliance, and he concluded the controls were ineffective.
- B. The internal auditor discovered an instance where management did not follow the standard bidding processes. The auditor assessed the validity of management's reasons for deviating from standard practice and the supporting documentation, and determined that the deviation was acceptable.
- C. The internal auditor selected a sample of purchase orders with amounts greater than \$5,000, the threshold at which the organization requires a bidding process. The auditor obtained documentation of the bidding process for each purchase order in the sample.
- D. The internal auditor analyzed bidding documents provided by management. Management indicated that the documents were purchase orders issued to a sole-source vendor. Based on the analysis and management's declaration, the internal auditor determined that the procurement process was effective.

Correct Answer: C

Section:

QUESTION 35

Which of the following procedures will best help an internal auditor assess operating effectiveness of fraud prevention and detection controls?

- A. Benchmarking best practices
- B. Testing,
- C. Mapping,
- D. Interviewing



Correct Answer: B

Section:

QUESTION 36

Operational management in the IT department has developed key performance indicator reports, which are reviewed in detail during monthly staff meetings. This activity is designed to prevent which of the following conditions?

- A. Knowledge/skills gap,
- B. Monitoring gap.
- C. Accountability/reward failure,
- D. Communication failure.

Correct Answer: B

Section:

QUESTION 37

Which of the following would be considered a violation of The HAFs mandatory guidance on independence?

- A. The chief audit executive (CAE) reports functionally to the board and administratively to the chief financial officer.

- B. The board seeks senior management's recommendation before approving the annual salary adjustment of the CAE.
- C. The CAE confirms to the board, at least once every five years, the organizational independence of the internal audit activity,
- D. The CAE updates the internal audit charter and presents it to the board for approval periodically, not on a specific timeline

Correct Answer: B

Section:

QUESTION 38

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.

Correct Answer: B

Section:

QUESTION 39

Which of the following could increase risks to the organization's control environment?

- A. Strong board of directors oversight.
- B. Incentive-based compensation structures.
- C. Lower than average employee turnover.
- D. Implementation of a fraud hotline.



Correct Answer: B

Section:

QUESTION 40

A chief audit executive (CAE) has no direct access to the board. According to IIA guidance, which of the following is the most appropriate way for the CAE to react?

- A. Ensure all subsequent audit reports include a disclaimer as to the lack of access to the board,
- B. Focus on operational audit work and disregard lack of direct access to the members of the board.
- C. Initiate changes to the internal audit charter to report to senior management for the time being,
- D. Engage in written communications with the board and present relevant issues in writing

Correct Answer: D

Section:

QUESTION 41

An internal audit activity maintains a quality assurance and improvement program that includes annual self-assessments. The internal audit activity includes in each engagement report a clause that the engagement is conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). Which of the following justifies inclusion of this clause in the reports?

- A. Internal audit activity policies and engagement records provide relevant, sufficient, and competent evidence that the statement is correct.
- B. The audit committee has reviewed the annual self-assessment results and approved the use of the clause.

- C. The self-assessment results were validated by a qualified external review team three years prior.
- D. The internal audit charter, approved by the audit committee, requires conformance with the Standards

Correct Answer: C

Section:

QUESTION 42

Who is responsible for ensuring internal auditors' continuing professional development?

- A. Individual internal auditors.
- B. Chief audit executive.
- C. The board.
- D. Engagement supervisors.

Correct Answer: B

Section:

QUESTION 43

Which of the following controls would best mitigate the risk of fraud in the bidding process?

- A. Have a bidding committee open the tender bids.
- B. Restrict the time to submit tender bids.
- C. Keep minutes of pre-bid meetings.
- D. Allow the higher tenders to rebid.

Correct Answer: B

Section:

QUESTION 44

Evidence discovered during the course of an engagement suggests that multiple incidents of fraud have occurred. There do not appear to be sufficient controls in place to prevent reoccurrence. Which of the following is the internal auditor's most appropriate next step?

- A. Immediately notify management of the area under review and the other internal auditors involved in the engagement.
- B. Discuss the situation with the engagement supervisor to determine whether fraud investigation experts are required to investigate the matter properly.
- C. Fully document in the workpapers the evidence that has been discovered and recommend appropriate controls to address the fraud.
- D. Provide the evidence that was discovered to local law enforcement for possible prosecution of the suspected fraud.

Correct Answer: A

Section:

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.



Correct Answer: C

Section:

QUESTION 46

Which of the following factors is most important for internal auditors to consider when prioritizing fraud risks?

- A. The organization's code of conduct.
- B. The organization's competition.
- C. The organization's code of ethics.
- D. The organization's culture

Correct Answer: D

Section:

QUESTION 47

According to NA guidance, which of the following provides the best evidence of conformance with the Standards with respect to the proficiency required of the internal audit activity?

- A. Discussions with the chief audit executive.
- B. A listing of employee profiles and certifications.
- C. Inquiry of external auditors.
- D. Validation by human resources.

Correct Answer: B

Section:

QUESTION 48

An internal auditor believes that the internal audit activity's independence is impaired. Which of the following actions should the internal auditor take first?

- A. Report the impairment to senior management
- B. Discuss the impairment with the audit manager
- C. Ascertain the best approach to disclose the impairment.
- D. Decide on the extent of impact of the impairment

Correct Answer: C

Section:

QUESTION 49

Management assessed the organization's risk of expanding operations into a new, but volatile, region and began looking for a compatible local partner to manage sales and distribution. Which of the following best describes this risk management technique?

- A. Avoidance.
- B. Acceptance.
- C. Reduction.
- D. Sharing

Correct Answer: C

Section:



QUESTION 50

In which of the following ways could stakeholders be engaged in corporate social responsibility efforts?

- A. Investigation of health and safety incidents.
- B. Auditing of controls and management systems.
- C. Communication of disclosures and external reporting,
- D. Involvement in focus groups and complaint management

Correct Answer: C

Section:

QUESTION 51

According to IIA guidance, which of the following statements is true regarding reporting the results of the quality assurance and improvement program?

- A. Results of internal assessments need to be reported to the board at least once every five years.
- B. The external assessor must present the findings from the external assessment to senior management and the board upon completion.
- C. Deficiencies within the internal audit activity must be reported to the board as soon as they are noted.
- D. Results of ongoing monitoring of the internal audit activity's performance must be reported to senior management and the board at least annually

Correct Answer: D

Section:

QUESTION 52

Which of the following best describes the internal audit activity's responsibility within a risk and control framework?

- A. The internal audit activity constitutes the first line of defense in effective risk management.
- B. The internal audit activity provides direction regarding internal controls implementation.
- C. The internal audit activity verifies that management has met its responsibility for implementing effective controls.
- D. The internal audit activity implements the internal control framework and advises management regarding best practices.

Correct Answer: C

Section:

QUESTION 53

Which of the following best demonstrates that the internal audit activity is using due professional care?

- A. The internal audit activity reports directly to the board on the engagements it performs.
- B. Internal auditors undertake the necessary training to complete their audit work.
- C. The completion of engagements is based on the assumption that fraudulent activities may exist.
- D. Internal auditors consider the use of technology-based audit and other data analysts techniques

Correct Answer: D

Section:

QUESTION 54

Which of the following best demonstrates conformance with the Standards relating to continuing professional development of internal auditors?

- A. Regulatory approval from an accrediting agency.
- B. Self-assessments against a competency framework.
- C. Approval and signoff from the board of directors.
- D. A review by external auditors on an annual basis

Correct Answer: C

Section:

QUESTION 55

If an internal auditor suspects fraud during an engagement which of the following is expected of the auditor?

- A. Evaluate the suspected activities to determine whether a formal investigation is warranted,
- B. Immediately inform senior management and the board of the suspected fraud.
- C. Ascertain the level of resources needed to formally investigate the fraud, and proceed with the investigation if resources permit,
- D. Include in the engagement documentation all possible effects and the potential impact of the fraud to the organization

Correct Answer: A

Section:

QUESTION 56

Which of the following statements best describes the difference between risk appetite and risk tolerance?

- A. Risk appetite applies to specific objectives, while risk tolerance refers to an organization's general attitude toward risk,
- B. Risk appetite refers to the degree of risk acceptance for a particular objective, while risk tolerance is one approach to risk management.
- C. Risk appetite refers to an organization's general level of acceptance, while risk tolerance is a more specific and subordinate concept.
- D. There is no significant difference between the two terms.

Correct Answer: C

Section:

QUESTION 57

An internal auditor discovered fraud while performing an audit of an organization's procurement process. Which of the following describes the greatest benefit of using forensic auditing techniques in this scenario?

- A. Enhanced capability to prevent frauds from occurring.
- B. Greater assurance that procurement frauds will be detected in a timely manner
- C. Improved capability of evaluating fraud risks within the organization.
- D. Greater understanding of fraud through better evidence collection

Correct Answer: D

Section:

QUESTION 58

Which of the following best describes the type of risk that an adequately designed and effectively operating system of internal controls should mitigate?

- A. Net.
- B. Controllable.
- C. inherent,

D. Residual.

Correct Answer: C

Section:

QUESTION 59

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

- A. Automatic shut-off valve.
- B. Auto-correct software functionality.
- C. Confirmation with suppliers and vendors.
- D. Safety instructions.

Correct Answer: C

Section:

QUESTION 60

Which of the following needs to be established prior to undertaking an assessment of the quality assurance and improvement program?

- A. Department performance standards.
- B. Remediation timeframes.
- C. Nonconformance disclosures.
- D. External assessment resources

Correct Answer: D

Section:

QUESTION 61

According to NA guidance, which of the following is true regarding typical fraud schemes?

- A. A diversion occurs when an employee has an undisclosed personal economic interest in a transaction that adversely affects the organization.
- B. Tax evasion is intentional reporting of false or misleading information on a tax return by an organization to reduce taxes owed.
- C. Skimming involves stealing cash or assets from the organization and is normally concealed by adjusting the organization's records.
- 4, Disbursement fraud occurs when a person causes the organization to issue a payment for fictitious goods or services.
- D. 1 and 3.B.
- E. 1 and 4.
- F. 2 and 3.
- G. 2 and 4.

Correct Answer: D

Section:

QUESTION 62

Which of the following most accurately describes the role of the board when it comes to organizational governance?

- A. Responsibility for outcome of the process.
- B. Responsibility to be involved in management of the organization.



- C. Responsibility to determine who is accountable for outcomes.
- D. Responsibility to identify risks in the organization's business environment

Correct Answer: C

Section:

QUESTION 63

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

Correct Answer: B

Section:

QUESTION 64

When taken by a chief audit executive, which of the following actions would be most likely to prevent division management from exaggerating sales reports?

- A. Announcing a series of internal audit engagements focusing on compliance with corporate salesreporting policies.
- B. Asking the president and the board to issue a statement of corporate policy stressing the importance of accurate management reporting and the negative consequences of intentional misreporting.
- C. Setting up a hotline for employees to report fraudulent behavior anonymously, 4. Assisting the controller in developing and monitoring a series of business process indicators, which are historically correlated with, but independent of sales.
- D. 1 and 2 only.
- E. 2 and 3 only.
- F. 2 and 4 only.
- G. 3 and 4 only

Correct Answer: A

Section:

QUESTION 65

Which of the following scenarios would most significantly restrict the areas where interna! audit could perform assurance services?

- A. Regulators mandate specific audit engagements to be included in the audit plan.
- B. The internal audit activity reports functionally to the chief financial officer
- C. The internal audit activity reports administratively to the CEO and functionally to the audit committee.
- D. The internal audit activity reports administratively to the chief financial officer.

Correct Answer: B

Section:

QUESTION 66

According to NA guidance, which of the following describes the primary reason to implement environmental and social safeguards within an organization?

- A. To enable Triple Bottom Line reporting capability.

- B. To facilitate the conduct of risk assessment.
- C. To achieve and maintain sustainable development.
- D. To fulfill regulatory and compliance requirements.

Correct Answer: A

Section:

QUESTION 67

The chief audit executive (CAE) of a new internal audit activity is creating an internal audit charter According to IIA guidance, which of the following terms is most likely to be included in the charter?

- A. Senior management will be present whenever the CAE interacts with the board, to ensure effective communication among all three parties.
- B. Internal auditors will advise on the design of control policies and procedures in any area where the organization does not possess the requisite expertise,
- C. Internal auditors will demonstrate competence, concern, and the dedication expected of a professional,
- D. Internal auditors will receive performance-based compensation, including bonuses for reporting more than a stipulated number of observations.

Correct Answer: C

Section:

QUESTION 68

According to NA guidance, which of the following practices by the chief audit executive (CAE) best enhances the organizational independence of the internal audit activity?

- A. CAE reviews and approves the annual audit plan,
- B. CAE meets privately with the CEO at least annually.
- C. CAE meets privately with the board at least annually,
- D. CAE reports to the board regarding audit staff performance evaluation and compensation.



Correct Answer: D

Section:

QUESTION 69

Which of the following statements is true regarding electronic funds transfer (EFT)?

- A. EFT is a popular mechanism for improving efficiency, but results in less internal control.
- B. EFT significantly reduces the risk of fraud by eliminating the need for authorizations.
- C. EFT eliminates payment delays due mostly to the introduction of automated cash controls,
- D. EFT makes use of numerous automated controls, but is still vulnerable to fraudulent accounting entries.

Correct Answer: C

Section:

QUESTION 70

According to the 11A Code of Ethics, which of the following is required with regard to communicating results?

- A. The internal auditor should present material information to appropriate personnel within the organization without revealing confidential matters that could be detrimental to the organization.
- B. The internal auditor should disclose all material information obtained by the date of the final engagement communication.
- C. The internal auditor should obtain all material information within the established time and budget parameters.
- D. The internal auditor should reveal material facts that could potentially distort the reporting of activities under review.

Correct Answer: D

Section:

QUESTION 71

Which of the following should a general internal auditor be able to characterize as an IT-related risk?

- A. Computer servers are in a room that is accessible to all employees,
- B. An IT architect avoids taking vacations and sharing his workload with coworkers,
- C. Hours billed by IT developers exceed 24 hours daily.
- D. Audit logs are lacking in a system that processes personal data.

Correct Answer: D

Section:

QUESTION 72

Which of the following situations is most likely to heighten an internal auditor's professional skepticism regarding potential fraud?

- A. A procurement manager does not have the expected academic credentials for his position.
- B. A salesperson frequently complains about the organization's policy on sales commissions.
- C. The accounts payable supervisor has requested advances against her monthly salary on several occasions.
- D. A financial accountant is absent from work frequently due to regular medical procedures.

Correct Answer: B

Section:



QUESTION 73

Which of the following situations undermines the independence of the internal audit activity?

- A. The internal audit activity is responsible for the company's risk management function, and its head manager reports to the chief audit executive.
- B. A senior member of the internal audit activity once worked in the corporate finance department.
- C. The organization's CEO reviews the internal audit activity's annual budget per the organization's policies and procedures.
- D. The internal audit activity often uses management's risk profile to build its own risk profile for annual planning.

Correct Answer: A

Section:

QUESTION 74

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

- A. The nature of consulting services typically is not included in the charter.
- B. The chief audit executive must formally review the charter at least once a year
- C. The nature of assurances provided to parties outside of the organization typically is not included in the charter.
- D. The charter typically defines the internal audit activity's position within the organization.

Correct Answer: D

Section:

QUESTION 75

During a payroll audit, the internal auditor discovered that several individuals who have the same position classification as he are earning a significantly higher salary. The auditor noted the names and amounts of each, and he planned to prepare a request to the chief audit executive for a salary increase based on this information. Which of the following IIA Code of Ethics principles was violated in this scenario?

- A. Competency.
- B. Objectivity,
- C. Integrity.
- D. Confidentiality

Correct Answer: D

Section:

QUESTION 76

Which requirement should the chief audit executive consider when communicating results of the quality assurance and improvement program to the board of a large organization?

- A. The internal assessment results should be discussed once every five years,
- B. The rating conclusions and the impact from results of the external assessment should be explained,
- C. The results of the external assessment should be discussed every seven years,
- D. The qualifications and independence of the internal assessment team should be discussed

Correct Answer: B

Section:

QUESTION 77

Which of the following best demonstrates internal auditors performing their work with proficiency?

- A. Internal auditors meet with operational management at each phase of the audit process.
- B. Internal auditors adhere to The IIA's Code of Ethics.
- C. Internal auditors work collaboratively with their engagement team.
- D. Internal auditors complete a program of continuing professional development.

Correct Answer: C

Section:

QUESTION 78

Which of the following statements is most accurate with respect to the required elements of the quality assurance and improvement program?

- A. Internal assessments provide sufficient objectivity to provide evidence to the board that the internal audit activity understands the organization's control processes.
- B. Quality assessments focus on the internal audit activity's structure, relationships with stakeholders, compliance with the Standards, and internal audit staff proficiency.
- C. In order to comply with the Standards, the internal audit activity must obtain an objective assessment of its processes and function at least once a year.
- D. Internal auditors completing internal assessments must demonstrate certification to perform quality assessments.

Correct Answer: A

Section:

QUESTION 79

Which of the following situations best describes an internal auditor who may have violated the IIA Code of Ethics principle of confidentiality?

- A. The auditor intentionally omitted from his resume that he was fired from his previous job for fraud allegations,
- B. The auditor decided not to notify her supervisor that her brother-in-law was responsible for the project the auditor was expected to evaluate.
- C. The auditor asked the audit client to copy requested files to her personal unencrypted memory stick because it was faster and more convenient.
- D. The auditor was assigned to analyze the organization's incentive program and spent long hours reviewing other employees' bonuses,

Correct Answer: D

Section:

QUESTION 80

For a new board chair who has not previously served on the organization's board, which of the following steps should first be undertaken to ensure effective leadership to the board?

- A. Chair should learn the current organizational culture of the company.
- B. Chair should learn the current risk management system of the company.
- C. Chair should determine the appropriateness of the current strategic risks.
- D. Chair should gain an understanding of the needs of key stakeholders.

Correct Answer: A

Section:

QUESTION 81

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.



Correct Answer: B

Section:

Explanation:

Topic 2, Exam Pool B

QUESTION 82

Which of the following activities best demonstrates an internal auditor's commitment to developing professional competencies?

- A. Requesting to be part of all engagements on the annual audit plan.
- B. Attending a series of locally offered training courses.
- C. Completing a skills assessment and development plan for targeted training needs,
- D. Attending a webinar on how to use data analytics

Correct Answer: C

Section:

QUESTION 83

Which of the following offers the best evidence that the internal audit activity has achieved organizational independence?

- A. An independent third party has assessed the organization's system of internal controls to be adequate and effective,
- B. The chief audit executive reports both functionally and administratively to the CEO.
- C. The internal audit charter is drafted properly and approved by the appropriate parties.
- D. The mission statement and strategy of the internal audit activity demonstrates alignment to organizational objectives.

Correct Answer: C

Section:

QUESTION 84

The chief audit executive (CAE) has assigned an internal auditor to an upcoming engagement. Which of the following requirements would most likely indicate that the internal auditor was assigned to an assurance engagement?

- A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.
- B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.
- C. The assigned internal auditor must not assume management responsibilities while performing the engagement
- D. The assigned internal auditor must maintain objectivity while performing the engagement.

Correct Answer: A

Section:

QUESTION 85

When would on-the-job training be more effective?

- A. When participants already have a certain degree of experience and knowledge.
- B. When it makes up the largest part of the training budget.
- C. When it includes ongoing feedback and coaching from experienced team members.
- D. When it is standardized for the whole entire staff.



Correct Answer: C

Section:

QUESTION 86

Which of the following strategies would be the most effective to share an organization's risk of losses through foreign currency transactions related to the accounts payable process?

- A. Using a hedging strategy.
- B. Implementing controls to follow up on deviations.
- C. Purchasing liability insurance.
- D. Purchasing foreign currency reserves.

Correct Answer: A

Section:

QUESTION 87

Which of the following is the most appropriate reason for a chief audit executive to conduct an external assessment more frequently than five years?

- A. Significant changes in the organization's accounting policies or procedures would warrant timely analysis and feedback.
- B. More frequent external assessments can serve as an equivalent substitute for internal assessments.

- C. The parent organization's internal audit activity agreed to perform biennial reciprocal external assessments to provide greater assurance at a reduced cost.
- D. A change in senior management or internal audit leadership may change expectations and commitment to conformance.

Correct Answer: D

Section:

QUESTION 88

The internal audit activity is responsible for which of the following actions related to an organization's internal controls?

- A. Mitigating risks affecting achievement of organizational objectives.
- B. Enabling opportunities affecting achievement of organizational objectives.
- C. Analyzing and advising regarding costs versus benefits of control activities,
- D. Attesting to fairness of financial statements.

Correct Answer: D

Section:

QUESTION 89

According to IIA guidance, which of the following most appropriately justifies the CEO's decision that the internal audit activity shall be responsible for risk management and investigation at a multinational organization?

- A. The recommendation of the parent office external auditors.
- B. The provisions of the internal audit charter
- C. The authority of the CEO.
- D. The level of proficiency of the chief audit executive

Correct Answer: B

Section:

QUESTION 90

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

- A. Outsourcing the payroll function.
- B. Absorbing the cost of losses.
- C. Insuring fixed assets.
- D. Installing cameras around the plant

Correct Answer: D

Section:

QUESTION 91

Which of the following would be included in quality assurance and improvement program (QAIP) reporting?

- A. Descriptions of standardized work practices.
- B. Outcomes of internal audit key performance indicators.
- C. Conformance of individual engagements with the Standards,
- D. Annual summaries of consulting and audit engagements.



Correct Answer: C

Section:

QUESTION 92

The board of directors of a global organization has found an increased number of reported cases of unethical practices since last year. To assist the board in gaining a better understanding of the degree of ethics awareness within the organization, which of the following actions should be undertaken?

- A. Request the internal audit activity to perform an ethics-related assurance engagement.
- B. Offer in-house ethics-related training seminars for employees to attend.
- C. Reaffirm the importance of the organization's code of ethics to all employees.
- D. Conduct an organizationwide employee survey on ethical practices

Correct Answer: D

Section:

QUESTION 93

After the final audit report was issued, the engagement supervisor received an expensive gift from management recognizing her assistance in improving the business, if the gift is accepted, which of the following would be true?

- A. The engagement supervisor violated The IIA's Code of Ethics principle of integrity.
- B. The engagement supervisor violated The IIA's Code of Ethics principle of objectivity.
- C. The engagement supervisor violated The IIA's Code of Ethics principle of confidentiality.
- D. The engagement supervisor did not violate any principles of The IIA's Code of Ethics.

Correct Answer: B

Section:

QUESTION 94

Which of the following is most likely to impair the organizational independence of the internal audit activity?

- A. The chief audit executive (CAE) reports administratively to the chief financial officer.
- B. The CAE oversees the effectiveness of the organization's risk management function.
- C. The CAE reports functionally to the CEO.
- D. The CAE managed the finance department for the past five years.

Correct Answer: C

Section:

QUESTION 95

According to NA guidance, which of the following actions by the chief audit executive would best ensure that internal auditors demonstrate due professional care?

- A. Developing policies and procedures for the internal audit activity.
- B. Ensuring the internal audit activity is not found fallible during audit engagements.
- C. Undertaking all engagements that management requests of the internal audit activity.
- D. Ensuring the internal audit activity reports functionally to the board of directors.

Correct Answer: B



Section:

QUESTION 96

An accounts payable clerk has recently transferred into the internal audit activity and has been assigned to an engagement related to accounts payable processes for which he was previously responsible. Which of the following is the best action for the new internal auditor to take?

- A. If it is an assurance engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value.
- B. If it is a consulting engagement, decline the assignment and ask to be reassigned, because in a consulting engagement the auditor must not assess operations for areas in which they were previously responsible.
- C. If it is a consulting engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value.
- D. If it is an assurance engagement, accept the assignment because the chief audit executive had knowledge of the internal auditor's previous role when this engagement was assigned.

Correct Answer: C

Section:

QUESTION 97

Which of the following statements is true regarding management's use of judgement to design, implement, and conduct internal control?

- A. The use of judgment enhances management's ability to make better decisions about internal control, but cannot guarantee perfect outcomes.
- B. Introducing judgment generally diminishes management's ability to make good decisions about internal control.
- C. It is inappropriate for management to exercise judgement in areas such as specifying and using suitable accounting principles.
- D. It is inappropriate for management to exercise judgement in assessing whether components are present, functioning, and operating together

Correct Answer: A

Section:



QUESTION 98

According to ISO 31000, which of the following statements is correct?

- A. The board is responsible for setting the organizational attitude through tone at the top,
- B. The internal audit activity will provide assurance over operating effectiveness but not over the design of risk management activities,
- C. The internal audit activity can give objective assurance on any part of the risk management framework for which it is responsible.
- D. The framework is designed to be effective for organizations no matter how small.

Correct Answer: D

Section:

QUESTION 99

In the COSO internal control framework, which of the following components serves as the foundation for the other components?

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

Correct Answer: B

Section:

QUESTION 100

Which of the following is true regarding the use of a formal risk management framework?

- A. It facilitates a methodical approach to risk mitigation.
- B. It defines and standardizes the terminology used in risk communication.
- C. It establishes the risk tolerance levels to be accommodated in the strategy.
- D. It facilitates the alignment of risk mitigation strategies with management priorities.
- E. 1. 2. and 3.
- F. 1.2. and 4.
- G. 1.3. and 4.
- H. 2. 3, and 4.

Correct Answer: B

Section:

QUESTION 101

According to IIA guidance, which of the following is most critical to ensuring that an organization's risk management program remains effective over time?

- A. Ensuring a fully executed assurance role for the internal audit activity.
- B. Conducting risk evaluations that include ranking the relative importance of each risk.
- C. Establishing a risk management function and appointing a chief risk officer.
- D. Conducting a combination of ongoing risk reviews and individual evaluations.

Correct Answer: C

Section:

**QUESTION 102**

Which of the following corporate social responsibility strategies is associated with responding to outside pressure by assuming additional responsibility?

- A. Accommodation.
- B. Reaction.
- C. Defense.
- D. Proaction.

Correct Answer: A

Section:

QUESTION 103

Which of the following statements is true regarding consulting engagements?

- A. Internal auditors cannot provide consulting services related to operations for which they had previous responsibilities.
- B. The nature of consulting services to be performed by internal auditors must be defined in the internal audit charter
- C. If internal auditors have potential impairments to objectivity related to the proposed consulting engagement, the engagement must be declined.
- D. If internal auditors lack the knowledge, skills, or other competencies needed to perform the consulting engagement, the engagement can proceed with proper disclosures.

Correct Answer: B

Section:

QUESTION 104

Which of the following describes two duties that should not be performed by the same person?

- A. Posting cash receipts and cash payments to the general ledger.
- B. Posting bad debt write-offs and reconciling the accounts payable subsidiary ledger.
- C. Distributing payroll checks and approving sales returns for credit.
- D. Recording cash receipts and preparing bank reconciliations.

Correct Answer: D

Section:

QUESTION 105

According to IIA guidance, which of the following is ultimately responsible for seeing that the internal control system of an organization's social responsibility program is effective?

- A. Senior management
- B. Internal audit activity.
- C. All employees.
- D. Board of directors.

Correct Answer: B

Section:

QUESTION 106

Which of the following actions should the audit committee take to promote organizational independence for the internal audit activity?

- A. Delegate final approval of the risk-based internal audit plan to the chief audit executive (CAE).
- B. Approve the annual budget and resource plan for the internal audit activity.
- C. Assist the CAE with hiring objective and competent internal audit staff.
- D. Encourage the CAE to communicate and coordinate with the external auditor.

Correct Answer: B

Section:

QUESTION 107

An organization is testing a new IT system for digital data storage and security. The internal audit activity has been asked to evaluate the system in a consulting engagement. Although several internal auditors on staff are qualified to perform basic assessments of IT systems, none are familiar with the new system. Which of the following is a legitimate response to the prospective client?

- A. Decline the engagement.
- B. Proceed with the engagement, performing only those parts of the engagement that the internal auditors are qualified to perform.
- C. Accept the engagement and develop the additional competencies in-house prior to the engagement's starting date.
- D. Make arrangements to obtain assistance from a competent IT auditing expert.
- E. 1 and 4 only.
- F. 2 and 3 only.
- G. 1, 2, and 3 only.



H. 1, 3, and 4 only.

Correct Answer: A

Section:

QUESTION 108

According to IIA guidance, which of the following actions best demonstrates due professional care by an internal auditor when she discovers a number of fraud-related red flags during an audit engagement?

- A. Conclude the engagement and inform management that fraud has occurred
- B. Perform further testing to verify the existence of fraud.
- C. Suspend the engagement and undertake a formal fraud investigation.
- D. Notify the board of the possible fraud immediately

Correct Answer: B

Section:

QUESTION 109

In which of the following scenarios would the internal auditor's objectivity be best protected?

- A. A former human resources manager conducts an effectiveness review of the appointment and termination process six months after transferring to the internal audit activity.
- B. An accounts payable clerk assists the internal auditors during an effectiveness review of the physical access controls to the server room.
- C. An internal auditor writes the system manual for a newly acquired payroll software application prior to conducting an effectiveness review of the system.
- D. An internal auditor conducts an effectiveness review of an organization's business continuity plan in which his son is a minority stockholder.

Correct Answer: D

Section:

QUESTION 110

Which of the following is an example of a management control technique?

- A. A budget.
- B. A risk assessment.
- C. The board of directors.
- D. The control environment

Correct Answer: A

Section:

QUESTION 111

An organization's board recommends revising the internal audit charter by adding requirements regarding the hiring and compensation of the chief audit executive as well as information on approving the internal audit budget. Which of the following is the board most likely defining in the charter?

- A. Functional and administrative responsibilities of internal audit activity.
- B. Authority and objectivity of internal audit activity.
- C. Independence and objectivity of internal audit activity.
- D. Assurance and improvement of internal audit activity.

Correct Answer: C

Section:

QUESTION 112

According to IIA guidance, which of the following actions by a new chief audit executive would be most appropriate to gain an understanding of the current level of knowledge, skills, and competencies required by an internal audit activity to fulfill its responsibilities?

- A. Identify gaps in the activity's proficiency, based on criteria defined by a widely accepted competency framework.
- B. Have a quality assessment review performed by an expert external entity.
- C. Identify a mature internal audit activity to serve as a benchmark for measuring the internal audit activity's competence.
- D. Assess whether members of the internal audit activity understand and apply the 11As mandatory guidance.

Correct Answer: A

Section:

QUESTION 113

Which of the following is the best example of a risk appetite statement concerning an investment portfolio?

- A. We will request CEO approval for investments greater than \$20 million and board approval for investments greater than \$50 million.
- B. We will hedge 95 percent of our U.S. currency exposure and 100 percent of our European currency exposure.
- C. We have a moderate tolerance for investment earnings volatility with a target value at risk of \$50 million.
- D. We will report to the risk committee all credit losses greater than \$10 million and all market value losses greater than \$20 million.

Correct Answer: C

Section:



QUESTION 114

According to IIA guidance, which of the following would be included in an internal audit charter to help establish the authority of the internal audit activity?

- A. Outline expectations for communicating the results of all aspects of the internal audit activity.
- B. Declare the internal audit activity's accountability for safeguarding assets and confidentiality.
- C. Document the chief audit executive's (CAE's) reporting line
- D. Document agreement between the CAE and the individual to whom the CAE reports

Correct Answer: C

Section:

QUESTION 115

Why is it imperative for the chief audit executive to track and develop the educational qualifications of internal audit staff?

- A. To accurately conduct performance appraisals
- B. To ensure that staff complete required continuing professional education credits annually.
- C. To ensure that the resources needed to complete the audit plan are available.
- D. To satisfy the audit committee requirements.

Correct Answer: C

Section:

QUESTION 116

Senior management has requested that the internal audit activity review and amend policies where necessary when auditing the purchasing department. To which of the following would the chief audit executive most likely give primary consideration when responding to this request?

- A. Auditor competency.
- B. Internal audit independence.
- C. Auditor objectivity.
- D. Engagement scope.

Correct Answer: A

Section:

QUESTION 117

Which of the following best describes the risk created when a manager bypasses organizational policies and procedures in order to meet an organization's objective?

- A. Accountability/reward risk.
- B. Monitoring failure risk.
- C. Communication failure risk.
- D. Knowledge/skills risk

Correct Answer: A

Section:

QUESTION 118

Which of the following would be the best choice for a continuing professional development requirement for a newly created internal audit activity?

- A. Require all internal auditors to create a training plan based on a competency self-assessment.
- B. Require internal auditors to complete all of their training through webinars, to increase efficiency and avoid traveling
- C. Require all internal auditors to become a member of The Institute of Internal Auditors.
- D. Require internal auditors to create a training plan based on their areas of interest

Correct Answer: A

Section:

QUESTION 119

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.

Correct Answer: C

Section:

QUESTION 120

Which of the following is considered to be a threat to the internal auditor's objectivity?

- A. The auditor drafted the operational procedures of the area that she is currently auditing.
- B. The auditor received a bonus that was approved by the board of directors.
- C. The assigned auditor recommended operational procedures for the organization.
- D. The assigned auditor rotated out of the same business activity three years ago

Correct Answer: A

Section:

QUESTION 121

An organization opened its warehouse to sell written-off surplus and outdated office furniture to the general public. Prices were negotiable, and customers could pay by cash, check, or credit card. Receipts were available upon request, and were issued by the inventory manager upon collection of payment. At the end of the day, the manager forwarded all of the funds he had collected to the finance department for deposit. Which of the following types of fraud is most likely to occur under these circumstances?

- A. Asset misappropriation.
- B. Bribery.
- C. Falsifying records.
- D. Skimming

Correct Answer: B

Section:

QUESTION 122

Which of the following indicates an appropriate disclosure of a potential nonconformance with the Standards?

- A. An external assessment of the internal audit activity was last performed six years ago.
- B. The internal audit activity has been in existence for four years but has not performed an external assessment.
- C. An internal assessment is not performed every year.
- D. The internal audit activity has been in existence for two years and has documented only an internal assessment.

Correct Answer: A

Section:

QUESTION 123

Which of the following best describes the differences between internal auditors and external auditors?

- A. External auditors are concerned about misstatements in the organization's financial statements, while internal auditors are concerned about fraudulent activities that could impact the organization's financial statements
- B. External auditors are required to hold an accounting designation and are responsible for continuing their education, while internal auditors are required to hold an internal audit designation.
- C. External auditors focus on the accuracy and understandability of financial statements, while internal auditors help the organization accomplish its objectives by evaluating and improving the effectiveness of the control process.
- D. External auditors are not employees of the organization, while internal auditors are employees who have in-depth knowledge of the business, making their opinion more reliable to the board and senior management.

Correct Answer: D

Section:

QUESTION 124

A fraud investigation was completed by management, and a proven fraud was communicated to relevant authorities. According to IIA guidance, which of the following roles would be most appropriate for the internal audit activity to undertake after the investigation?

- A. Plan employee sessions and team building strategies for the organization to improve awareness of fraud among employees
- B. Review the investigation and implement any improvements to the process.
- C. Conduct lessons learned sessions to ascertain how the fraud occurred and which controls failed.
- D. Determine why the fraud was not detected earlier and design controls to strengthen early detection.

Correct Answer: C

Section:

QUESTION 125

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

Correct Answer: A

Section:

QUESTION 126

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

Correct Answer: B

Section:

QUESTION 127

Which of the following is a limitation of detective internal controls in fraud management?

- A. Implementation costs tend to be higher than the expected benefits.
- B. They tend to be easy for fraudsters to circumvent.
- C. They are not designed to improve efficiency of operations.
- D. They are not effective in preventing fraud.

Correct Answer: C

Section:

QUESTION 128

Which type of engagement requires that the client agrees with the techniques used by the internal audit activity?

- A. A performance audit.
- B. A sensitive fraud investigation.
- C. A compliance audit
- D. A consulting service.

Correct Answer: D

Section:

QUESTION 129

According to the Standards, which of the following is a requirement for internal audit professional development plans?

- A. Plans must include a path to certification so that each internal auditor has a certification in auditing finances.
- B. Plans must ensure that staff development activities are based primarily on the skills and competencies needed to complete the audit plan.
- C. Plans must include rotating audit areas so that auditors acquire business knowledge to be efficient in performing engagements.
- D. Plans must include rotating auditors out into business units for temporary assignments so they can obtain more business knowledge.

Correct Answer: D

Section:

QUESTION 130

To achieve conformance with the Standards, the chief audit executive must include which of the following activities in the quality assurance and improvement program (QAIP)?

- A. Require board oversight of the QAIP.
- B. Assess Standards conformance for each individual engagement.
- C. Conduct a self assessment at least once every five years.
- D. Report the results of the QAIP to senior management



Correct Answer: D

Section:

QUESTION 131

A new internal auditor suspects fraud is taking place. Which action should the new auditor take?

- A. Collect relevant audit evidence and begin working with management of the area to investigate the fraud.
- B. Inform the chief audit executive and meet with the suspect to determine whether the person committed fraud.
- C. Document supporting information and recommend an investigation to the appropriate audit management.
- D. Evaluate existing controls and implement new procedures to mitigate the opportunity for fraud.

Correct Answer: C

Section:

QUESTION 132

A manufacturer of power tools is experiencing regular fluctuations in the price of electrical power which is having a serious impact on the bottom line. Which of the following would be the most effective risk strategy to reduce the impact of these fluctuations?

- A. Use an average cost for power to smooth the bottom line.

- B. Analyze the amount of power used to produce each power tool.
- C. Review the current process to identify opportunities to reduce power usage.
- D. Use a forward contract for bulk power purchases

Correct Answer: D

Section:

QUESTION 133

An organization sells products through distributors. The organization's chief audit executive insists that the organization's code of conduct be applicable to their distributors as well. Which of the following risks would this mitigate?

- A. Business continuity
- B. Market manipulation
- C. intellectual property leakage
- D. Reputational damage

Correct Answer: D

Section:

QUESTION 134

A chief audit executive assigned an internal auditor to perform an assurance engagement. The auditor concluded with a major audit finding based on hearsay evidence Which of the following competencies did the auditor appear to be lacking?

- A. Effective communication skills
- B. Risk-based assurance knowledge
- C. Demonstration of due professional care.
- D. Demonstration of ethical behavior

Correct Answer: A

Section:

QUESTION 135

According to NA guidance which of the following should be documented in the internal audit charter?

- A. The risk assessment process applied by the internal audit activity
- B. The organization's internal control framework used by the internal audit activity
- C. The nature of consulting services provided by the internal audit activity
- D. The performance evaluation process used by the internal audit activity

Correct Answer: C

Section:

QUESTION 136

Which principle of the HA Code of Ethics focuses on continuing education and professional development?

- A. Due professional care
- B. Professionalism



- C. Proficiency
- D. Competency

Correct Answer: D

Section:

QUESTION 137

An internal auditor performed a consulting engagement last year which included assisting with management's design of controls over the procurement function. How should the chief audit executive plan an assurance engagement on the adequacy of the internal control system in the procurement function in the current year?

- A. Assign the engagement to another internal auditor on staff
- B. Outsource the engagement to ensure independence
- C. Harness the auditor's knowledge of the procurement function by assigning the engagement to the same internal auditor
- D. Postpone the engagement to the following year to ensure enough time has passed since the controls were designed

Correct Answer: A

Section:

QUESTION 138

Which of the following drivers of fraud is directly controllable by an organization?

- A. Pressure
- B. Rationalization
- C. Opportunity
- D. Incentive



Correct Answer: C

Section:

QUESTION 139

Which of the following best describes a responsibility of the board of directors with regard to risk management throughout the organization?

- A. Monitor the organization's overall risk activities in relation to its risk appetite and other risk criteria.
- B. Guide the integration of risk management with other business planning and management activities.
- C. Review the portfolio of risk of the organization in relation to its risk appetite.
- D. Assume responsibility for the effectiveness and success of the risk management framework

Correct Answer: D

Section:

QUESTION 140

An organization's fraud policies and procedures dictate that the internal audit activity does not have primary responsibility for conducting fraud investigations and should, in fact, refrain from involvement in investigations. Which of the following activities would be considered acceptable for internal auditors to perform of this organization?

- A. Evaluate the effectiveness of fraud investigations
- B. Oversee and monitor senior management's approach to manage fraud risks
- C. Set the tone for fraud risk management within an organization

D. Evaluate whether the financial statements are free of material misstatement due to fraud

Correct Answer: B

Section:

QUESTION 141

A technology company recently hired an entry-level internal auditor. To achieve conformance with the Standards, which of the following must the newly hired internal auditor possess?

- A. An understanding of fraud and fraud risk.
- B. IT audit expertise.
- C. Industry-specific knowledge
- D. At least one audit-related certification

Correct Answer: A

Section:

QUESTION 142

According to MA guidance, which of the following best describes how often the chief audit executive should review the quality assurance and improvement program of the internal audit activity?

- A. Whenever the business objectives of the organization change
- B. Just prior to an external assessment of the internal audit activity
- C. At the completion of each engagement.
- D. Progressively on a day-to-day basis

Correct Answer: C

Section:

QUESTION 143

What is the primary reason for establishing a continuing professional development program within an organization's internal audit activity?

- A. To ensure all internal audit responsibilities can be met
- B. To ensure all audit staff members are capable of performing a quality self-assessment.
- C. To ensure that each auditor maintains responsibility for his own professional development.
- D. To attract the best and most talented candidates in the profession

Correct Answer: A

Section:

QUESTION 144

Which of the following statements is true regarding internal controls?

- A. Strategic objectives are prerequisites to establishing internal controls.
- B. Internal controls eliminate process breakdowns caused by human errors.
- C. Well-established internal controls cannot be overridden.
- D. Robust internal controls ensure business success.

Correct Answer: A



Section:

QUESTION 145

Which of the following internal controls best mitigates the risk of corruption schemes between employees and vendors?

- A. Establishing policies that prohibit an employee from receiving gifts from an interested party.
- B. Having employees sign annual attestations that they adhere to the organization's code of ethics.
- C. Having strong management oversight of the purchasing and accounts payable functions.
- D. Conducting regular examinations of documentation both paper and electronic.

Correct Answer: C

Section:

QUESTION 146

Which of the following organizations is adopting an acceptance technique in terms of its risk response?

- A. An organization that takes no action in managing the possible exposure to an earthquake.
- B. An organization that opts out of investing in a new region due to volatility in foreign exchange rates.
- C. An organization that takes out insurance policies to protect its property and equipment.
- D. An organization that deploys policies and procedures to guide business activities and practices

Correct Answer: A

Section:

QUESTION 147

Which of the following is a way to demonstrate an individual internal auditor's competency through continuing professional development?

- A. Create different training budgets for each of the internal auditors
- B. Define average training hours per auditor as a team performance measure
- C. Analyze internal audit client survey feedback following audits
- D. Review training records for all internal auditors

Correct Answer: C

Section:

QUESTION 148

An organization's operations management is aware of existing internal control deficiencies but they lack the competency to execute internal control measures. Which of the following actions if taken by the internal audit activity is appropriate to assist operating management in achieving continuous improvement on internal controls?

- A. Foster the importance of the control environment
- B. Provide training on controls and on self-monitoring processes
- C. Recommend installing an enterprisewide risk management system.
- D. Conduct more assurance assignments on high risk areas

Correct Answer: B

Section:



QUESTION 149

Which of the following situations presents the lowest risk of impairing an internal audit activity's independence?

- A. Senior management has the authority to terminate the chief audit executive
- B. Senior management has control over the internal audit activity's budget
- C. Senior management provides feedback on the scope of the internal audit plan.
- D. Senior management limits the internal audit activity's access to the board

Correct Answer: C

Section:

QUESTION 150

During the closing meeting of a procurement audit, the business manager disagrees with the observation presented by the engagement supervisor and accuses the team of not understanding the procurement objectives. The engagement supervisor blames the manager for impeding the audit. What skillset should the chief audit executive utilize to manage this situation?

- A. The ability to negotiate
- B. The ability to use analytical tools
- C. The ability to foresee issues
- D. The ability to manage conflict

Correct Answer: D

Section:

QUESTION 151

In an internal audit charter, which of the following statements regarding the chief audit executive (CAE) would be most directly related to describing the responsibilities of the internal audit activity*?

- A. The CAE shall report functionally to the board and administratively to the chief financial officer
- B. The CAE and the Internal audit activity shall have full access to any and all records and personnel of the organization that are relevant to audit engagements
- C. The CAE and the internal audit activity shall be independent and objective in performing their work.
- D. The CAE shall report periodically on the performance of the internal audit activity relative to its plan

Correct Answer: A

Section:

QUESTION 152

During an assurance engagement the internal audit team discovers that employees performing a control do not understand the principles behind it. Before the engagement concludes, at management's request the audit team facilitates several formal training sessions to help explain those principles to the employees. Which of the following best describes the engagement provided by the internal audit activity in this scenario?

- A. Assurance services
- B. Blended services
- C. Consulting services
- D. Prohibited services

Correct Answer: C

Section:

QUESTION 153

During an assurance engagement an internal auditor discovered that risk limits risk limit were set for a new market expansion project Management of the area under review was eager to comply and submitted a potential risk limit value for the auditor's review and approval. Which of the following would be an appropriate course of action for the auditor to take?

- A. Review the submission and if no further remarks exist approve the risk limits
- B. Provide advice if needed and ask management of the area under review to forward to senior management and the board for approval
- C. Develop risk limit calculation criteria and ask management of the area under review to resubmit the values.
- D. Avoid providing any advice or review until the audit report is issued

Correct Answer: A

Section:

QUESTION 154

Which of the following should an internal auditor take into consideration when making a judgement regarding whether management selected appropriate risk responses?

- A. Significant risks
- B. Risk capacity
- C. Risk appetite
- D. Risk tolerance

Correct Answer: C

Section:

QUESTION 155

Which of the following best demonstrates organizational independence of the internal audit activity?

- A. The chief audit executive (CAE) reports functionally to the CEO.
- B. The CAE's compensation is approved by the chief financial officer.
- C. The CAE's appointment is determined by the CEO
- D. The CAE reports administratively to the chief operating officer.

Correct Answer: D

Section:

QUESTION 156

Which of the following would be the most effective in helping to detect fraud?

- A. Code of conduct.
- B. Exit interviews.
- C. Fraud awareness training
- D. Employee promotion policy.

Correct Answer: B

Section:

QUESTION 157

According to MA guidance, which of the following is true with regard to the internal audit charter?

- A. It specifies the minimum resources needed for assurance engagements.
- B. It requires final approval from senior management.
- C. It defines the internal audit activity's authority and responsibilities.
- D. It describes the expectations for communicating the results of a quality assurance and Improvement program.
- E. 1 and 4 only.
- F. 3 and 4 only.
- G. 1, 2, and 4.
- H. 2, 3, and 4.

Correct Answer: D

Section:

QUESTION 158

Who is held responsible for oversight of the organization's risk management framework?

- A. Operational management.
- B. Board of directors.
- C. Internal auditors.
- D. Head of risk management.

Correct Answer: B

Section:

QUESTION 159

According to MA guidance, which of the following is an appropriate role for the internal audit activity?

- A. Coaching management in responding to risks.
- B. Implementing risk responses on management's behalf.
- C. Imposing risk management processes.
- D. Setting the risk appetite.

Correct Answer: A

Section:

QUESTION 160

Management of an area under review is aggressive, upset, and questioning the knowledge and experience of the organization's internal auditors, as the audit results highlight critical findings. The relationship between the internal audit activity and management has continued to degenerate, as previous audit reports also showed a large number of issues. What would be the best strategy for working through the current audit results while also attempting to repair the relationship with management?

- A. Take an accommodating approach and change the overall rating of the audit report.
- B. Take a compromising approach by modifying the tone of the report, while maintaining the critical findings.
- C. Take an assertive approach and be persistent in attempting to convince the director.
- D. Take an assisting approach and offer to assist with the implementation of action plans.

Correct Answer: C

Section:



QUESTION 161

During a review of the procurement function, an internal auditor identified an existing control for adding new vendors into the vendor contract system. Which of the following would best help the auditor determine the adequacy of the control's design?

- A. Flowchart of the vendor addition process.
- B. Independent confirmations sent to vendors.
- C. Analysis of the control's costs and benefits.
- D. Interview with management of the procurement function.

Correct Answer: A

Section:

QUESTION 162

An internal auditor is assessing fraud risks and creating a fraud risk matrix for a particular branch location. Which of the following is most likely to be included in the matrix?

- A. Risks and relevant mitigating controls.
- B. Business processes and relevant fraud risks.
- C. Fraud scenarios and relevant risks.
- D. Opportunity, rationalization, and pressure to commit fraud.

Correct Answer: A

Section:

QUESTION 163

A whistle blower notified internal audit of a conflict of interest between an organization's employee and a major supplier. Which of the following steps should be undertaken first?

- A. Interview the employee identified by the whistleblower.
- B. Attain an understanding of the employee's role, responsibilities, and relationship with the supplier.
- C. Notify senior management, the board, and the external auditor about the alleged fraud
- D. Review all the orders issued to the supplier to investigate potential fraud.

Correct Answer: B

Section:

QUESTION 164

Which of the following actions would best help the internal audit activity promote continuous improvement in control effectiveness within the organization?

- A. Determining whether management measures and monitors the costs and benefits of controls.
- B. Providing training on controls and ongoing self-monitoring processes.
- C. Developing flowcharts to obtain information about control design adequacy.
- D. Identifying objectives and the risks involved in achieving them.

Correct Answer: B

Section:

QUESTION 165

In its five years of existence, an internal audit activity conducted a single internal assessment of its quality assurance and improvement program (QAIP). The results of that assessment showed that the internal audit activity

did not conform with the Standards. Prior to this, an external assessment of the internal audit activity's QAIP was conducted, which reported that the internal audit activity was in conformance with the Standards. Considering the two assessments, what would be the internal audit activity's current state of conformance with the Standards?

- A. Conformance with the Standards.
- B. Nonconformance with the Standards
- C. Unable to determine conformance with the Standards.
- D. Partial conformance with the Standards

Correct Answer: B

Section:

QUESTION 166

It is important for the chief audit executive to consider the level of competence of the internal audit staff because their competence influences which of the following?

- A. The cost-benefit relationship of planned audits.
- B. Proficiency needed to carry out engagements.
- C. Achievement of the objectives of internal control.
- D. Quantity of the audits performed.

Correct Answer: B

Section:

QUESTION 167

According to MA guidance, which of the following statements is true regarding an effective governance process?

- A. It stipulates that risk needs to be considered when making strategic decisions.
- B. It encourages strict segregation of the risk management and internal control processes.
- C. It relies on effective risk management when establishing the organization's risk appetite.
- D. It relies on the board to devise ways to communicate the effectiveness of internal controls.

Correct Answer: A

Section:

QUESTION 168

As a result of a high-profile processing error, respective business unit managers are implementing new controls. The internal audit team was asked for their advice regarding the controls. The objective of this consulting engagement would be determined by which of the following?

- A. The organization's board of directors.
- B. The chief audit executive.
- C. The business unit manager and the engagement supervisor.
- D. The compliance manager and the business unit manager.

Correct Answer: C

Section:

QUESTION 169

During an audit engagement of a large retail store, internal auditors noted significant discrepancies between available inventory and sales and suspect an abuse of cash register refunds and voids.

Which of the following would be the most effective preventative control to reduce these losses?

- A. Ensure that returned merchandise is restocked to shelves or sent to the manufacturer by an independent employee.
- B. Call a sample of customers who returned merchandise to test the legitimacy of the returns and check refund amounts.
- C. Require that a manager use a reserved register code to approve voids or refunds.
- D. Analyze voids and refunds by employee, credit card number, and amount for unusual numbers, amounts, or patterns.

Correct Answer: C

Section:

QUESTION 170

A chief audit executive ensures that the internal audit activity provides annual training to management on internal controls. Where is the nature of these services defined?

- A. The annual audit plan.
- B. The audit report.
- C. The annual risk assessment.
- D. The audit charter.

Correct Answer: D

Section:

QUESTION 171

An internal auditor is finalizing an audit report on the effectiveness of the organization's overall system of internal control. Several audit tests were performed, and the only issue identified was that the CEO frequently asks employees to make exceptions or bypass the organization's standard written policies and procedures. Which of the following conclusions is most appropriate for the auditor to report?

- A. The auditor should indicate that the system of internal control is not effective.
- B. The auditor should indicate that the system of internal control is generally effective, except for the minor issue identified.
- C. The auditor should indicate that the system of internal control is effective.
- D. The auditor cannot express a conclusive opinion in the audit report.

Correct Answer: A

Section:

QUESTION 172

Which of the following options describes the reason that conformance with The IIA's Code of Ethics is mandatory for internal auditors?

- A. Ethical compliance provides the basis for stakeholder confidence in the competence of the internal audit activity and of professional internal auditors.
- B. Ethical compliance is necessary for internal auditors and the internal audit activity to accept responsibility for providing absolute assurance about the organization's risk management.
- C. Ethical compliance provides the basis for stakeholder trust and confidence in the validity of the profession of internal auditing and the internal audit activity's findings.
- D. The internal audit activity's ethical compliance sets the tone for the ethical compliance by the organization's board, management, and employees.

Correct Answer: C

Section:

QUESTION 173

Which of the following statements is correct regarding disclosure of conformance or nonconformance with the Standards?

- A. An internal audit activity that has been in existence fewer than five years cannot indicate that it is operating in conformance with the Standards because it has not yet undergone an external assessment.
- B. Once an external assessment validates conformance with the Standards, the internal audit activity may continue to use the statement until the next external assessment.
- C. If it has been more than five years since the last external assessment was conducted, the Internal audit activity must cease indicating that it operates in conformance with the Standards.
- D. The chief audit executive must disclose every instance of noncompliance with the Code of Ethics or the Standards.

Correct Answer: A

Section:

QUESTION 174

The manager of the payroll department requested a review of the payroll process, but only wants the engagement to include processes related to approval of time worked. What type of activity is this?

- A. Financial assurance engagement.
- B. Operational consulting engagement.
- C. Compliance assurance engagement.
- D. Risk management consulting engagement.

Correct Answer: C

Section:

QUESTION 175

Which of the following statements is true regarding control activities?

- A. Control activities are carried out by first-line and second-line functions to mitigate risks.
- B. Control activities are implemented by internal auditors to mitigate risks to an acceptable level.
- C. Control activities provide the foundation for the organization to establish its risk appetite.
- D. Control activities are a precondition to setting risk tolerance levels.

Correct Answer: A

Section:

QUESTION 176

An internal auditor was offered expensive tickets to a sporting event by the manager of an area that she was currently auditing. The auditor politely declined. Which of the following fundamental principles of the MA Code of Ethics did she display?

- A. Confidentiality.
- B. Independence.
- C. Competency.
- D. Objectivity

Correct Answer: B

Section:

QUESTION 177

Which of the following actions should the organization's governing body perform to provide the most effective governance over the organization's culture?

- A. Coordinate control activities.
- B. Provide direction.

- C. Design key controls.
- D. Deliver assurance.

Correct Answer: B

Section:

QUESTION 178

Which of the following indicates that internal audit independence may be compromised?

- A. The internal auditor maintains a close personal relationship with operational management.
- B. Material observations were intentionally left out of the audit report.
- C. Internal auditors assigned to the audit engagement did not have the knowledge, skills, and competencies needed to perform their responsibilities.
- D. An internal auditor failed to apply professional skepticism while performing audit tests in an area overseen by an experienced, reputable manager

Correct Answer: C

Section:

QUESTION 179

While preparing the audit plan for an automobile manufacturing company, the chief audit executive (CAE) noted that the company's engineering department received a high risk ranking. However, the internal audit activity is understaffed, and current staff do not possess the necessary skills to adequately assess the effectiveness of the engineering department. What is the most appropriate course of action for the CAE to take?

- A. Include the engineering department on the audit plan, use the available internal audit resources to conduct the review, and exclude procedures that cannot be adequately assessed.
- B. Advise management to accept the assessed risk until the internal auditors are able to review the area adequately.
- C. Recruit internal auditors with the required competencies and wait until they are employed before including this audit on the internal audit plan.
- D. Proceed with a review of the engineering department but supplement the internal audit team with nonauditors from an external engineering company who have the required skills to assist

Correct Answer: C

Section:

QUESTION 180

Which of the following process weaknesses is most likely to cause an internal auditor the most concern about fraud risk?

- A. Final employee payroll list is belatedly sent to the bank for payment processing.
- B. Employee salary is calculated by the payroll system without further verification.
- C. Employee personal records in the permanent file are not updated in a timely manner
- D. Employee personal information in the payroll system could be updated without approval.

Correct Answer: D

Section:

QUESTION 181

An internal auditor in a busy internal audit activity reviews her continuing professional development records toward the end of the year and is concerned to find she has undertaken limited training and formal professional development. Which of the following actions is the most appropriate for her to take?

- A. Remind the chief audit executive (CAE) that he is responsible for her continuing professional development and needs to address the issue
- B. Contact her professional organization and explain that she does not need formal professional development, as she is being developed sufficiently through undertaking audit engagements.
- C. Accept that she is unlikely to meet continuing professional development requirements but look to attend training courses at the next available time.

D. Accept that she is responsible for her own continuing professional development, develop a professional plan, and discuss it with the CAE.

Correct Answer: D

Section:

QUESTION 182

Which of the following engagements would be considered an appropriate consulting service?

- A. The internal audit activity of a commercial bank routinely performs branch audits for compliance with regulations.
- B. The internal audit activity participates in a cosourcing arrangement with an IT audit firm to test information systems security.
- C. The internal audit activity facilitates biannual training of the risk management team in risk identification methodologies.
- D. The internal audit activity partners with external auditors annually to complete fieldwork required as a part of the external audit exercise.

Correct Answer: C

Section:

QUESTION 183

Which of the following statements is true regarding an organization's code of ethics?

- A. It should be written with primary consideration given to using a rule-based approach.
- B. It should be of two variations: one applicable internally and one applicable for third parties.
- C. Its operational effectiveness cannot be tested using traditional audit and rating systems such as maturity models.
- D. It should require an annual attestation of compliance with the code of conduct by all employees.

Correct Answer: D

Section:

QUESTION 184

According to The IIA's Code of Ethics, an internal auditor who has a romantic relationship with an audit client violates which of the following rules of conduct?

- A. Confidentiality.
- B. Independence.
- C. Integrity.
- D. Objectivity.

Correct Answer: D

Section:

QUESTION 185

According to IIA guidance, the nature and scope of assurance and consulting services to be offered must be clearly delineated in which of the following internal audit documents?

- A. The internal audit policies and procedures handbook.
- B. The internal audit charter.
- C. The internal audit mission statement.
- D. Each internal audit engagement letter.

Correct Answer: B

Section:

QUESTION 186

Which of the following best demonstrates organizational independence of the internal audit activity?

- A. The chief audit executive reports directly to the board
- B. Internal auditors may not disclose personal data of the audit client
- C. Internal auditors may not accept gifts from management of the area under review
- D. Internal auditors must observe the law and make required disclosures

Correct Answer: D

Section:

QUESTION 187

Which of the following policies promotes internal audit objectivity?

- A. The chief audit executive (CAE) reports functionally to the CEO
- B. The CAE's compensation is approved by the chief financial officer
- C. The CAE's appointment is determined by the CEO
- D. The CAE reports administratively to the chief operating officer

Correct Answer: C

Section:

QUESTION 188

In which of the following situations has the internal auditor violated the IIA's Code of Ethics?

- A. An employee confided in an internal auditor and told him about fraudulent activities. Although the employee asked for confidentiality, the auditor disclosed her identity later during police questioning.
- B. While auditing payroll controls, an auditor was granted temporary access to salary data. The auditor referred to the acquired information while negotiating her work conditions three months later.
- C. Management considers an auditor to be highly competent and asked the auditor to participate in an upcoming acquisition project. The auditor declined the request, citing a lack of knowledge.
- D. An internal auditor failed to acquire the continuing education credits needed for the year and requested that the IIA change his certification status to inactive until he completed the required education activities.

Correct Answer: D

Section:

QUESTION 189

Which of the following is a primary benefit of implementing a governance risk management and compliance framework within an organization?

- A. Fewer internal audits
- B. More effective interviews
- C. Automated risk management strategy tools
- D. Reduced assurance costs

Correct Answer: D

Section:

QUESTION 190



Which of the following actions best demonstrates an internal auditor exercising due professional care?

- A. Testing an entire population, even when a sample would suffice
- B. Using technology and data analysis techniques for efficiency
- C. Enhancing knowledge, skills, and other competencies through professional development
- D. Establishing audit objectives, performing audit tests, and implementing missing controls

Correct Answer: B

Section:

QUESTION 191

Which of the following is true regarding risk analysis?

- A. Impact and likelihood should be assessed together.
- B. Impact and likelihood should be given equal consideration by the internal auditor.
- C. Impact and likelihood should be measured using quantitative methods.
- D. Impact and likelihood should be used to determine risk response.

Correct Answer: A

Section:

QUESTION 192

According to IIA guidance, which of the following statements is true with regard to the chief audit executive's (CAE's) responsibility for conducting a self-assessment of the internal audit activity?

1 The CAE should select an independent reviewer or review team to perform sufficient tests of the self-assessment to validate the results 2 The CAE should validate results by engaging experienced audit professionals from a separate internal audit activity outside of the organization to reperform all of the tests conducted for the assessment 3 The CAE should select independent, nonaudit professionals who are knowledgeable about the organization and the industry in which it operates to assist with performing the self-assessment 4 The CAE may consider performing a self-assessment with independent external validation in lieu of performing a full external assessment

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

Correct Answer: B

Section:

QUESTION 193

An organization's board of directors has decided that the internal audit activity must have greater access to different parts of the organization in order to perform their assurance work effectively Which of the following areas is the board seeking to improve by making this change?

- A. Internal audit authority.
- B. Internal audit reporting structure.
- C. Internal audit independence and objectivity.
- D. Internal audit interaction with the board

Correct Answer: A

Section:

QUESTION 194

According to HA guidance, which of the following statements is true regarding the internal audit activity's quality assurance and improvement program (QAIP)?

- A. Internal assessments rely solely on the review of completed audit engagements for demonstrated performance
- B. The chief audit executive is responsible for assessing the suitability and competence of an external assessor.
- C. QAIP results must first be discussed with the board and approval obtained for distribution to senior management
- D. At the board's discretion, the frequency of external assessments can exceed the five-year guideline

Correct Answer: B

Section:

QUESTION 195

Which of the following is an example of the chief audit executive (CAE) demonstrating due professional care?

- A. The CAE relies on CAEs in other organizations to understand how due professional care should be executed in her internal audit activity
- B. The CAE meets with the board of directors on a quarterly basis to provide a status update.
- C. The CAE assesses the audit staff's knowledge and skills annually to determine whether additional resources are needed to fulfill the internal audit plan.
- D. The CAE provides absolute assurance to line management during each external audit engagement

Correct Answer: B

Section:

QUESTION 196

An electrician visits a client to assess the scope of work. After the visit, the sales office compiles and sends the client a proposal based on the electrician's estimation and approved price list. The internal auditor notices that in the last six months, the number of cancelled proposals has increased substantially. Which of the following is a fraud risk scenario that the auditor should consider in this situation?

- A. Some electricians may be offering clients opportunities for reduced fees if they pay with cash.
- B. There is a new competitor in the area who offers better prices.
- C. Sales representatives may be manipulating the proposals to include additional costs.
- D. An unauthorized person may be modifying client data and cancelling the proposals.

Correct Answer: A

Section:

QUESTION 197

Which type(s) of assessments in an internal audit activity's quality assurance and improvement program requires ongoing monitoring to evaluate internal audit activity's efficiency and effectiveness?

- A. Neither internal nor external assessment
- B. internal assessment
- C. Both internal and external assessment
- D. External assessment

Correct Answer: B

Section:

QUESTION 198

Which of the following demonstrates that the internal audit activity exercises due professional care?

- A. Supervisors provide feedback to internal auditors after workpapers are reviewed
- B. A self-assessment is conducted through the quality assurance and improvement program every five years
- C. Internal auditors are required to give absolute assurance of regulatory compliance
- D. The chief audit executive reports functionally to the board

Correct Answer: A

Section:

QUESTION 199

What is expected of internal auditors in regards to due professional care?

- A. Auditors perform assurance services without regard to cost
- B. Auditors perform assurance services effectively to identify all risks
- C. Auditors perform assurance services needed to achieve the engagement's objectives
- D. Auditors perform assurance services to guarantee all significant risks will be addressed

Correct Answer: C

Section:

QUESTION 200

Which of the following would best serve to deter unethical behavior and encourage internal auditors to be objective in their work?

- A. A requirement that internal auditors undergo objectivity training periodically
- B. Periodic communications reminding internal auditors of Standards requirements
- C. A review of the final audit report by the audit committee
- D. Ongoing monitoring and periodic internal quality assessments



Correct Answer: B

Section:

QUESTION 201

Which of the following circumstances would most likely be considered a potential red flag for fraud by the internal audit activity?

- A. The monthly payroll reports are not vetted to ensure terminated employees have been removed from the payroll system
- B. The volume of nonroutine journal entries has steadily increased over time.
- C. The database of approved suppliers has not been reviewed the last year
- D. The recent employee survey indicates that some employees remain unaware of the organization's whistleblower hotline.

Correct Answer: A

Section:

QUESTION 202

Which of the following statements is true regarding intangible assets?

- A. The amortization period of an intangible asset cannot exceed 20 years.
- B. The cost intangible assets with indefinite lives should be amortized.

- C. Intangible assets are categorized as having either a limited life or an indefinite life.
- D. Companies should record intangible assets at fair market value

Correct Answer: C

Section:

QUESTION 203

An organization allows the same individuals to physical access inventory and purchase new assets when supplies are depleted. Which of the following would best help the organization manage the risk of fraud?

- A. Accounting personnel should regularly perform reconciliation between invoices and purchase orders
- B. Accounting personnel should conduct a periodic inventory count and reconcile inventory movements
- C. internal auditors should review frequency and volume of purchased assets to detect trends in the inventory levels
- D. Management should established a policy requiring new inventory asset purchases to be made on serialized order forms with copies retained

Correct Answer: D

Section:

QUESTION 204

Which of the following scenarios demonstrates an impairment to internal audit independence?

- A. The internal auditor s denied access to partner information from management of me area under review
- B. The internal auditor tarts to disclose a potential conflict of interest relationship with management of the area under review
- C. The internal auditor concludes that controls operate effectively, although he did not gather supporting evidence
- D. The internal auditor was assigned to an assurance review of an area for which he previously had responsibilities

Correct Answer: A

Section:

QUESTION 205

Which of the following scenarios demonstrates nonconformance with the Standards?

- A. An internal auditor failed to expand the engagement and include managements preferences when determining the scope of an upcoming assurance engagement.
- B. An internal audit activity lacks the skills need to perform a high-risk security engagement included on the annual audit plan.
- C. A chief audit executive fated to perform a risk assessment prior to preparing the audit plan
- D. An internal audit activity has existed for two years and has not undergone external quality assessment

Correct Answer: C

Section:

QUESTION 206

Which of the following is an appropriate roe fa the internal audit activity?

- A. Ensuring the organization's key risks are managed through appropriate controls.
- B. Assisting the organization in maintaining effective controls.
- C. implementing new controls to promote continuous improvement
- D. Validating control assessments performed by the external auditor.

Correct Answer: A

Section:

QUESTION 207

According to IIA guidance which of the following statements regarding ethics is true?

- A. Business ethics may vary within an organization with both domestic and foreign operations
- B. Business ethics are universal in nature and organizations across the world are expected to comply with similar standards
- C. A business ethics policy for an organization is established solely to direct the behavior and expectations of employees
- D. Business ethics of an organization must remain independent from those of supplier's customers and business partners

Correct Answer: D

Section:

QUESTION 208

The internal audit activity is responsible for conducting fraud investigations. A potential fraud instance was identified during an audit engagement. The chief audit executive appoints a lead investigator. Which of the following would most likely be the next step?

- A. Ask internal auditors to gather all relevant information evidence
- B. Identify and interview witnesses first potential suspects later.
- C. Conduct a fraud risk assessment to the most vulnerable areas.
- D. Determine the competencies needed and assess whether team members have a conflict of interest.

Correct Answer: B

Section:



QUESTION 209

Upon completion of an external assessment as part of the quality assurance and improvement program (QAIP), the chief audit executive (CAE) reported the results to senior management and the board. The CAE included the following elements in the report:

- Qualifications and independence of the external assessment team
- Conclusions of assessors
- Corrective action plans

How should the CAE improve the aforementioned approach to reporting the results of QAIP?

- A. Senior management should be excluded from the reporting as the QAIP results must be communicated to the board only
- B. The report can be streamlined by removing unnecessary information such as the qualifications and the independence of external assessors
- C. The results must be shared with the external auditors as well, so they can determine the extent to which they can rely on the work of the internal audit activity
- D. The report should indicate that the external assessment must be performed at least once every five years

Correct Answer: D

Section:

QUESTION 210

What is the primary reason a chief audit executive should dedicate time and resources to support continuing professional development of internal audit staff?

- A. To ensure that internal audit staff maintains high overall job satisfaction.
- B. To ensure that internal audit staff acquired continuing professional education credits timely.

- C. To ensure that top risks are mitigated to an acceptance level.
- D. To ensure that internal audit staff have the competency to address high-priority risks.

Correct Answer: A

Section:

QUESTION 211

Which of the following would show appropriate disclosure of nonconformance with the Standards?

- A. The chief audit executive (CAE) documented in the personal file a critical conflict of interest involving an internal audit on an upcoming contracting engagement.
- B. The CAE discussed with the board an issue regarding the internal activity performing an IT engagement without proper skills and knowledge.
- C. The CAE met with the peer review team to discuss an internal auditor's failure to meet the annual requirements for continuing professional education.
- D. The CAE revealed to an operational manager that he failed to appropriately consider risks while he was developing the audit plan.

Correct Answer: B

Section:

QUESTION 212

Which of the following statements best represents the due professional care that is required of internal auditors?

- A. Internal auditors should perform assurance procedures to ensure that all significant risks are identified.
- B. Internal auditors should not perform consulting engagements for operations for which they had previous responsibilities.
- C. Internal auditors should consider the cost of assurance in relation to the potential benefits.
- D. Internal auditors should design internal audit programs to confirm that the results are accurate.

Correct Answer: A

Section:

QUESTION 213

The chief audit executive (CAE) of a large organization is preparing job descriptions to hire five new general internal audit staff, two new IT auditors and a senior auditor. How is the CAE likely to describe IT requirements for the general internal audit staff positions?

- A. The candidate must be able to apply data analytics tools and methodologies.
- B. The candidate must be able to evaluate IT governance and cybersecurity frameworks.
- C. The candidate must be able to understand IT-related risk and general controls.
- D. The candidate must be able to execute web servers, applications, and databases testing procedures.

Correct Answer: C

Section:

QUESTION 214

The accounting department asked the chief audit executive (CAE) to perform a review of suspicious transactions. The CAE was an accounting manager for the organization six months ago. How should she respond to the request?

- A. Decline, if it is a consulting engagement because she recently worked in the organization's accounting department.
- B. Accept, as it is an assurance engagement, as she has been out of the department long enough to not impair objectivity.
- C. Inform the accounting department that the engagement can take place in the future once she has been removed from accounting for a longer period of time.

D. Accept, it is a consulting engagement with agreed-upon scope and services to be provided by me internal audit activity.

Correct Answer: D

Section:

QUESTION 215

What is an appropriate first step in an internal auditor's fraud risk assessment to evaluate how the organization manages such risk?

- A. Develop preventive and detective controls
- B. Identify potential fraud scenarios
- C. Assess the impact and likelihood of fraud risks
- D. Determine fraud risk responses

Correct Answer: B

Section:

QUESTION 216

Which of the following would most likely be classified as a consulting engagement?

- A. Examining the internal control effectiveness of the marketing department
- B. Assessing the adequacy of the IT system's business process design
- C. Facilitating a self assessment of the organizations business risk and control identification
- D. Reviewing the application controls in the human resources system

Correct Answer: C

Section:

QUESTION 217

Which of the following should play a leading role in overseeing the ethical atmosphere of an organization?

- A. Internal audit activity
- B. Operating management
- C. Senior management
- D. Board of directors

Correct Answer: D

Section:

QUESTION 218

IT management requires all employees in the IT department to attend annual training on the department's mission values and key performance measures This activity is designed to prevent which of the following conditions?

- A. Knowledge's kills gap
- B. Monitoring gap
- C. Accountability/reward failure
- D. Communication failure

Correct Answer: A



Section:

QUESTION 219

Which of the following is an indicator that the organization's risk management process is effective?

- A. The organization's risk appetite mission, and objectives are clearly outlined.
- B. The organization's risk management practices are assessed as mature.
- C. The organization has adopted risk management frameworks and global models.
- D. The organization's significant risks are identified and adequately assessed

Correct Answer: B

Section:

QUESTION 220

Which of the following would best describe a control implemented to detect cash register disbursement fraud in a large retail store?

- A. Separate the duties of processing and authorizing refunds on merchandise
- B. Post signs in the register area prompting customers to ask for and examine their sales receipts
- C. Periodically count the cash in the register and compare it to the expected amount
- D. Use cash registers with internal tapes that are tamper proof and that require a manager to process voids or refunds

Correct Answer: C

Section:

QUESTION 221

The internal audit activity was denied access to expenditure and budget reports because they were considered to be confidential. This situation would result in which of the following limitations of the internal audit activity?

- A. Independence
- B. Integrity
- C. objectivity
- D. Authority

Correct Answer: D

Section:

QUESTION 222

Which of the following qualifies as an acceptable consulting service provided by the internal audit activity?

- A. Develop training and system rollout plans in response to the results of the change readiness assessment of a new sales distribution model
- B. Lead a risk self assessment session for laboratory managers to help identify inherent risks and provide recommendations on how to evaluate the risks
- C. Audit a third party cloud service provider to review the effectiveness of governance and management controls in providing secure services to its customers
- D. Conduct a post-implementation assessment of the enterprise resource planning system to determine whether project objectives were met and to identify opportunities to maximize potential benefits

Correct Answer: B

Section:

QUESTION 223



Which of the following skills is critical for assessing corporate social responsibility through a selfassessment?

- A. Assessment skills
- B. Assurance skills
- C. Interviewing skills
- D. Facilitation skills

Correct Answer: A

Section:

QUESTION 224

The chief audit executive (CAE) decided to conduct a self-assessment with independent validation.

Which of the following is the most likely reason the CAE selected this course of action?

- A. The audit committee requested the self assessment for quality assurance purposes
- B. The staff auditors have the necessary knowledge and experience to conduct the review
- C. The internal audit activity is relatively small in size and is due for an external assessment
- D. The internal audit activity is due for a self-assessment which is specifically required at least once every five years

Correct Answer: B

Section:

QUESTION 225

Prior to commencing a financial compliance engagement, the engagement supervisor reads the business plan for the finance department and meets informally with the director to learn more about any key issues. Which of the following competencies is the engagement supervisor demonstrating?

- A. The ability to inspire trust
- B. The ability to communicate effectively
- C. The ability to display courage
- D. The ability to understand the needs of stakeholders

Correct Answer: B

Section:

QUESTION 226

An internal auditor notes that inventory counts are conducted on Mondays only and that all documentation is on paper as there are no computers in the underground warehouses. Also she notices that the person responsible for receiving the goods is the same one who distributes materials and spare parts. Finally, she sees that spare parts are written off and taken by the heads of mining units to different underground locations to wait for their turn to be installed. Which of the described findings requires more consideration from a fraud risk perspective?

- A. The job responsibilities of the warehouse employee compromise segregation of duties
- B. Spare parts are written off before their actual usage and installation
- C. Warehouse management is conducted on paper and requires further investigation
- D. The inventory counts take place on specific days of the week for no apparent reason

Correct Answer: B

Section:

QUESTION 227

A new internal audit activity is considering the adoption of a risk and control framework. Which of the following is the most appropriate consideration during this process?

- A. The framework should not be developed by the internal audit activity
- B. The framework should apply to individual projects rather than the organization as a whole
- C. The framework should always be tailored to the organization
- D. The framework should require fewer resources to implement

Correct Answer: C

Section:

QUESTION 228

Which of the following is true regarding the stakeholder theory of corporate social responsibility?

- A. An organization has a fiduciary duty to put shareholders' needs first
- B. Customers' needs are the primary responsibility of the organization
- C. Competitors are considered stakeholders of the organization
- D. Employees are the organization's best assets and primary responsibility

Correct Answer: A

Section:

Explanation:

Topic 6, Exam Pool F

**QUESTION 229**

An internal audit team was assigned to review the organization's information security protocol. After fieldwork was completed, an internal auditor identified an error in the review of security access. The error could affect the overall results of the engagement. Which of the following is the most appropriate course of action for the internal auditor?

- A. Proceed with addressing the error and report any corrections to the engagement supervisor during the scheduled exit meeting
- B. Issue the audit report to senior management on schedule but include a disclaimer about the error
- C. Proceed with the scheduled closing of the engagement without consideration of the identified error
- D. Inform the engagement supervisor of the error and allow the supervisor to determine the appropriate action to take

Correct Answer: D

Section:

QUESTION 230

Which of the following fundamental principles of The IIA's Code of Ethics is best described as performing work honestly, diligently, and responsibly?

- A. Integrity
- B. Proficiency
- C. Due Professional Care
- D. Competency

Correct Answer: A

Section:

QUESTION 231

During engagement planning, an internal auditor determines that the cost of a certain test outweighs the benefit that can be expected from the results. He determines that this test can be removed from the audit work program. Which of the following did the internal auditor best demonstrate?

- A. Due professional care
- B. Individual objectivity
- C. Proficiency
- D. Internal assessment

Correct Answer: A

Section:

QUESTION 232

Which of the following scenarios provides the most concerning red flag or indicator of possible fraud?

- A. An employee receives a bonus for perfect attendance
- B. During the past 18 months three chief financial officers have left the organization after having been promoted to the position
- C. The organization does not perform any due diligence research on third party service providers
- D. Three competitors are highly profitable but a fourth equal in size is approaching bankruptcy limits

Correct Answer: B

Section:

QUESTION 233

Which of the following describes the most appropriate match between a potential temporary guest auditor candidate and an upcoming audit assignment?

- A. A purchasing manager with two years of prior audit experience in public practice to lead a contracts management audit
- B. A communications officer who worked in the marketing department during the last six months to conduct a customer loyalty program audit
- C. A manager of social responsibility who has a nursing background to participate in a health and safety audit for the corporate office and plant facilities
- D. An accounting manager who discovered and reported fraud committed by a payables clerk to conduct a performance audit of accounts payable

Correct Answer: D

Section:

QUESTION 234

Which of the following statements is true regarding reporting results of the quality assurance and improvement program to senior management and the board?

- A. Internal assessments must be reported to the board at least every five years
- B. If supported by assessment results, reporting provides assurance that internal auditors demonstrate conformance with the Code of Ethics
- C. Following the reporting the board must give the internal audit activity five years to correct any deviations
- D. A report, including the results of both internal and external assessments must be provided to the board annually

Correct Answer: B

Section:

QUESTION 235

Who has the ultimate responsibility of implementing the organization's governance system?

- A. Stakeholders
- B. The board
- C. The chief executive officer
- D. Internal auditors

Correct Answer: C

Section:

QUESTION 236

A senior executive at a government-owned organization received an invitation to attend a public exhibition where he can learn about new trucks relevant to the organization's business. As a special perk, the executive is offered an opportunity to drive a luxury vehicle manufactured by one of the exhibiting companies. Prior to the event, the executive asked for the chief audit executive's (CAE's) advice. What should the CAE recommend as the most appropriate course of action for the executive?

- A. Attend the event, but decline the offer to use the luxury vehicle
- B. Decline the invitation to the exhibition.
- C. Ask the board to decide on the issue.
- D. Select a lower-level employee to enjoy the luxury vehicle instead

Correct Answer: A

Section:

QUESTION 237

At a construction company, supervisors are entitled to bonus payments if there are no safety rule violations on their teams. There are several channels available for workers to report accidents and violations, and all reported violations are investigated. Bonus payment calculations are approved by managers and the head of safety. Which of the controls best addresses the risk that supervisors will conceal accidents on their teams in order to receive the bonus?

- A. The investigation of all reported violations
- B. The authorization process for bonus calculations
- C. The variety of reporting channels
- D. The presence of safety rules

Correct Answer: C

Section:

QUESTION 238

How do assurance services and consulting services differ?

- A. There is less variety of consulting services than an internal audit activity might provide compared to assurance services
- B. Assurance services are limited to financial events or actions, and consulting services are not limited in this way
- C. Consulting services do not have to be included in the internal audit charter
- D. Other employees in an organization can provide consulting services but only an internal audit activity can provide assurance services

Correct Answer: D

Section:

QUESTION 239

Which of the following fraud prevention measures is most likely to trigger undesired adverse behavior if improperly designed?

- A. Disclosure of outside business activities
- B. Ethics training programs
- C. Compensation programs
- D. Exit interviews

Correct Answer: C

Section:

QUESTION 240

Which of the following would an internal auditor expect to find within an organization's internal control framework?

- A. A compliance risk mitigation strategy to be implemented by the compliance function.
- B. A statement of the organization's values, reflecting its attitude toward risk
- C. Details of how each group from the Three Lines Model fits into the risk management strategy.
- D. The risk appetite related to establishing and approving process

Correct Answer: B

Section:

QUESTION 241

What is the primary purpose of The IIA's Code of Ethics?

- A. Communicate specific activities appropriate to the performance of internal auditing
- B. Promote ethical culture within corporations and other business organizations
- C. Establish mandatory standards of competence for the practice of internal auditing
- D. Establish principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing



Correct Answer: D

Section:

QUESTION 242

Which of the following is an indicator that an organization's risk management processes are effective?

- A. Departmental objectives are managed by department heads and are independent of the organization's mission.
- B. Organization wide mechanisms exist to enable the identification and assessment of all significant risks.
- C. Department heads have the autonomy to determine risk responses that fall outside of the organization's risk appetite
- D. Relevant risk information is captured and communicated primarily between management and the board

Correct Answer: B

Section:

QUESTION 243

Which of the following would be addressed in the internal audit charter?

- A. Expertise requirements for internal auditors

- B. Functional and administrative reporting lines for the chief audit executive
- C. Audit engagements to be completed in the next fiscal year
- D. Budget requirements for each engagement

Correct Answer: B

Section:

QUESTION 244

Which of the following should the internal audit activity establish to ensure auditors develop the appropriate skills for conducting audits?

- A. An audit charter that includes the internal audit activity mission and vision
- B. A policy encouraging audit staff to earn certifications
- C. A quality assurance and improvement program to address audit risk areas
- D. An internal audit plan that links engagements to strategic objectives

Correct Answer: D

Section:

Explanation:

Answer: D

Explanation:

QUESTION 245

Which of the following should be part of the internal audit activity's duties?

- A. Actively reporting to the governing body.
- B. Providing risk management frameworks.
- C. Assisting management in developing processes and controls to manage risks and issues.
- D. Identifying and mitigating significant risks to the organization.



Correct Answer: C

Section:

QUESTION 246

Which of the following statements is true regarding how the scope of a consulting engagement should be established?

- A. The engagement client should be able to determine the scope to be applied to the engagement
- B. The internal auditor should establish a scope that does not impair her objectivity
- C. Any attempts by the engagement client to limit the scope should be considered a scope limitation
- D. The scope should include reviewing the effectiveness of the internal control environment

Correct Answer: A

Section:

QUESTION 247

After the draft engagement report is issued, the manager of the area that was reviewed is informally interviewed by the engagement supervisor regarding the audit experience. Which of the following is most likely the purpose for this interview?

- A. Such an interview is performed when there is a need to dismiss an internal auditor
- B. Feedback from the manager will contribute to the audit team's professional development
- C. The manager's opinion will be used to form the final audit assessment and report rating.
- D. The manager will provide insights into the audited industry's trends

Correct Answer: B

Section:

QUESTION 248

Which action by senior management indicates to the internal auditor that there may be fraudulent activities occurring within the organization?

- A. Setting unrealistic targets for staff to achieve
- B. Granting external audit firms access to staff and records.
- C. Automating some processes and allowing others to be performed manually
- D. Enforcing a zero-tolerance policy for misconduct

Correct Answer: A

Section:

QUESTION 249

Which of the following situations would best indicate to the chief audit executive that one of the audit team members is struggling with application of due professional care?

- A. The engagement supervisor requests that an auditor carry out improvements to workpapers to address numerous problems: evidence is missing, references are incorrect, and conclusions are superfluous
- B. Audit work was completed in accordance with the established goals; however, a material misstatement was later uncovered in the audited area by another assurance provider.
- C. According to the audit report, several control failures occurred due to irresponsible behavior of local management, who was consequently deprived of bonuses and wrote a negative feedback to the auditor
- D. The delivery of audit results was several weeks late because the internal auditor had to spend additional time trying to understand the nature of certain transactions with derivation.

Correct Answer: B

Section:

QUESTION 250

An audit client who was unsatisfied with the audit report rating called the chief audit executive (CAE) and complained that the internal auditor who performed the audit was biased because his spouse, who worked in the area under review, was on a list of employees to be terminated. Which of the following measures would be most appropriate to prevent this situation from arising?

- A. Initiating an internal investigation to clarify whether a biased judgment took place.
- B. Requiring the internal auditors to disclose any potential conflicts of interest.
- C. Requiring that the audit client disclose any potential conflicts of interest with the auditor.
- D. Requiring human resources manager to submit all future job applicants' data in order to identify relatives of auditors.

Correct Answer: B

Section: