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Exam Code: IIA-CIA-Part2
Exam Name: Certified Internal Auditor - Part 2, Conducting the Internal Audit Engagement



Exam A

QUESTION 1

Which of the following statements describes a best practice regarding assurance engagement communication activities?

- A. All assurance engagement observations should be communicated to the audit committee.
- B. All assurance engagement observations should be included in the main section of the engagement communication.
- C. During the "communicate" phase of an assurance engagement, it is best to define the methods and timing of engagement communications.
- D. A detailed escalation process should be developed during the planning stage of an assurance engagement.

Correct Answer: D

Section:

QUESTION 2

An engagement team is being assembled to audit one of the organization's vendors. Which of the following statements best applies to this scenario?

- A. The engagement team should include internal auditors who have expertise in investigating vendor fraud.
- B. The engagement team should be composed of certified accountants who are proficient in financial statement analysis and local accounting principles.
- C. To preserve independence and objectivity, an auditor who worked for the vendor two years prior may not participate on the engagement team.
- D. The engagement team may include an auditor who lacks knowledge of the industry in which the vendor operates.

Correct Answer: A

Section:

QUESTION 3

Which of the following is one of the five attributes that internal auditors include when documenting a deficiency?

- A. The criteria used to make the evaluation
- B. The methodology used to analyze data
- C. The proposed follow-up engagement work to be performed
- D. The scope of work performed during the engagement

Correct Answer: A

Section:

QUESTION 4

During follow-up, the internal auditor discovered that operational management did not implement effective actions to address a significant control breach. If the issue is left unresolved, it may result in regulatory sanctions and damage the organization's reputation. What is the most appropriate next step for the chief audit executive to take?

- A. Report the matter to the board
- B. Implement the recommended control to address the exposure
- C. Discuss the matter with senior management
- D. Ask the regulatory agency to persuade management to address the issue

Correct Answer: C

Section:

QUESTION 5

An internal auditor has been asked to join a project team to help design controls in a software application to address specific risks that have been identified by the team Which of the following actions is most appropriate for the internal auditor to perform?

- A. Facilitate a control assessment to ensure all application risks were appropriately identified
- B. Advise the project team on how to develop effective controls
- C. Direct the project team to implement the appropriate controls within the software application
- D. Provide assurance that the design of the controls will mitigate the identified application risks

Correct Answer: A

Section:

QUESTION 6

An internal auditor wants to identify potential ghost employees in the organization's payroll system The auditor extracts the following data

- Human resources data with employees' names addresses employment conditions and identification codes
- Payroll data
- Logs from entrance systems

With this data, which of the following types of ghost employees will the auditor be able to identify?

- A. Employees who are being paid more than then approved wages
- B. Employees who get paid although their employment has expired
- C. Employees who are related to one of the subcontractors
- D. Employees who are physically present at the workplace but who do not perform the specified job duties



Correct Answer: A

Section:

QUESTION 7

According to IIA guidance which of the following represents sufficient information?

- A. Information that is factual adequate and convincing
- B. Information that is best attainable through the use of appropriate engagement techniques
- C. Information that supports engagement objectives and recommendations
- D. Information that helps the organization meet its goals

Correct Answer: D

Section:

QUESTION 8

An internal auditor recommended that an organization implement computerized controls in its sales system in order to prevent sales representatives from executing contracts in excess of their delegated authority levels A follow-up review found that the sales system had not been modified, but a process had been implemented to obtain written approval by the vice president of sales for all contracts in excess of \$1 million The chief audit executive (CAE) would be justified in reporting this situation to the organization's board under which of the following circumstances'?

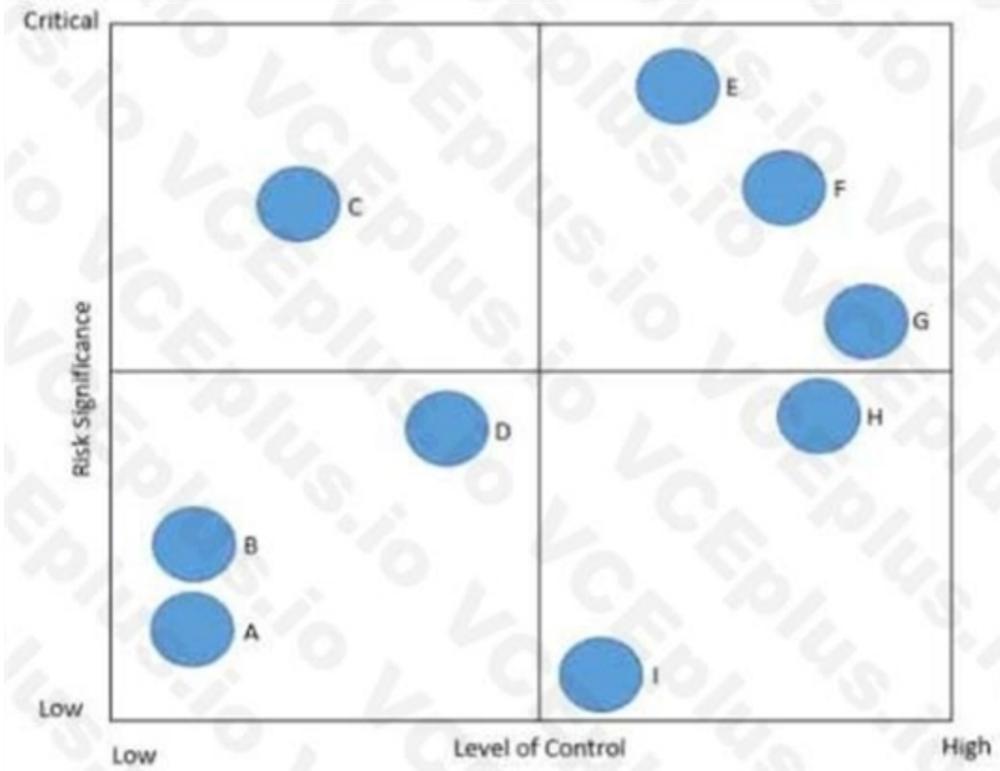
- 1- In the opinion of the CAE the level of residual risk assumed by senior management is too high
- 2- Testing of compliance with the new process finds that all new contracts in excess of \$1 million have been approved by the vice president of sales
- 3- The cost of modifying the sales system to include a preventive control is less than \$100,000

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

Correct Answer: A
Section:

QUESTION 9

In the following risk control map risks have been categorized based on the level of significance and the associated level of control. Which of the following statements is true regarding Risk C?



- A. The level of control is appropriate given the level of risk
- B. The level of control is excessive given the level of risk
- C. The level of control is inadequate given the level of risk
- D. There is not enough of information to determine whether the controls are appropriate or not

Correct Answer: C
Section:

QUESTION 10

In which of the following situations has an internal audit of obtained physical evidence?

- A. An internal auditor made purchases from several of the organization's retail outlets to evaluate customer service
- B. An internal auditor interviewed various employees regarding health and safety issues and recorded their answers
- C. An internal auditor obtained the current quarterly financial report and computed changes in debt-to-equity ratio
- D. An internal auditor received a signed confirmation regarding the terms of a transaction from an independent attorney

Correct Answer: A

Section:

QUESTION 11

Which of the following is an appropriate documentation of proper engagement supervision?

- A. A completed engagement workpaper review checklist.
- B. The supervisor's review notes on engagement workpapers.
- C. The email exchanges between the audit team and the supervisor.
- D. A supervisor's approval of resources allocated to the engagement

Correct Answer: B

Section:

QUESTION 12

An internal auditor discovered that a new employee was granted inappropriate access to the payroll system. Apparently the IT specialist had made a mistake and granted access to the wrong new employee. Which of the following management actions would be most effective to prevent a similar issue from occurring again?

- A. Remove the new employee's excessive access rights and request that he report any future access error.
- B. Perform a complete review of all users who have access to the payroll system to determine whether there are additional employees who were granted inappropriate access.
- C. Review the system activity log of the employee to determine whether he used the inappropriate access to conduct any unauthorized activities in the payroll system.
- D. Provide coaching to the IT specialist and introduce a secondary control to ensure system access is granted in accordance with the approved access request.

Correct Answer: D

Section:

QUESTION 13

When the internal audit activity does not have sufficient time to complete its usual root cause analysis, which of the following is most appropriate?

- A. The chief audit executive may recommend that management conduct further work to identify the root cause and address the issue.
- B. Internal auditors should finish the engagement without conducting the root cause analysis and draft the audit report, though the report would not be considered complete until the analysis is concluded.
- C. Internal auditors must adjust their future engagement schedule to ensure that the root cause analysis is always performed before the engagement is concluded.
- D. Internal auditors should instead perform a Pareto rule analysis.

Correct Answer: A

Section:

QUESTION 14

To effectively communicate the acceptance of risk in an organization, a chief audit executive must first consider which of the following?

- A. The organization's view on risk tolerance.
- B. The organization's principal risk events.
- C. The organization's risk response strategies.
- D. The organization's major control activities.

Correct Answer: A

Section:



QUESTION 15

According to IIA guidance, organizations have the most influence on which element of fraud?

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

Correct Answer: A

Section:

QUESTION 16

The external auditor has identified a number of production process control deficiencies involving several departments. As a result, senior management has asked the internal audit activity to complete internal control training for all related staff. According to IIA guidance, which of the following would be the most appropriate course of action for the chief audit executive to follow?

- A. Refuse to accept the consulting engagement because it would be a violation of independence.
- B. Collaborate with the external auditor to ensure the most efficient use of resources.
- C. Accept the engagement but hire an external training specialist to provide the necessary expertise.
- D. Accept the engagement even if the audit engagement staff was previously responsible for operational areas being trained.

Correct Answer: D

Section:

QUESTION 17

Which of the following is not a primary reason for outsourcing a portion of the internal audit activity?

- A. To gain access to a wider variety of skills, competencies and best practices.
- B. To complement existing expertise with a required skill and competency for a particular audit engagement.
- C. To focus on and strengthen core audit competencies.
- D. To provide the organization with appropriate contingency planning for the internal audit function.

Correct Answer: D

Section:

QUESTION 18

Which of the following statements about internal audit's follow-up process is true?

- A. The nature, timing, and extent of follow-up for assurance engagements is standardized to ensure quality performance.
- B. The actions of external auditors and other external assurance providers is not encompassed by internal audit's follow-up process.
- C. Internal auditors have responsibility for determining if management and the board have implemented the recommended action or otherwise accepted the risk.
- D. The follow-up process must be complete and documented in the working papers in order to conclude the engagement.

Correct Answer: C

Section:

QUESTION 19

A manufacturer is under contract to produce and deliver a number of aircraft to a major airline. As part of the contract, the manufacturer is also providing training to the airline's pilots. At the time of the audit, the delivery of

the aircraft had fallen substantially behind schedule while the training had already been completed. If half of the aircraft under contract have been delivered, which of the following should the internal auditor expect to be accounted for in the general ledger?

- A. Training costs allocated to the number of aircraft delivered, and the cost of actual production hours completed to date.
- B. All completed training costs, and the cost of actual production hours completed to date.
- C. Training costs allocated to the number of aircraft delivered, and 50% of contracted production costs.
- D. All completed training costs, and 50% of the contracted production costs.

Correct Answer: D

Section:

QUESTION 20

An internal auditor determines that certain information from the engagement results is not appropriate for disclosure to all report recipients because it is privileged. In this situation, which of the following actions would be most appropriate?

- A. Disclose the information in a separate report.
- B. Distribute the information in a confidential report to the board only
- C. Distribute the reports through the use of blind copies.
- D. Exclude the results from the report and verbally report the conditions to senior management and the board.

Correct Answer: A

Section:

QUESTION 21

For which of the following fraud engagement activities would it be most appropriate to involve a forensic auditor?

- A. Independently evaluating conflicts of interests.
- B. Assessing contracts for relevant terms and conditions.
- C. Performing statistical analysis for data anomalies.
- D. Preparing evidentiary documentation.

Correct Answer: D

Section:

QUESTION 22

According to IIA guidance, which of the following is true about the supervising internal auditor's review notes?

- They are discussed with management prior to finalizing the audit.
- They may be discarded after working papers are amended as appropriate.
- They are created by the auditor to support her fieldwork in case of questions.
- They are not required to support observations issued in the audit report.

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

Correct Answer: D

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Section:

QUESTION 23

During a fraud interview, it was discovered that unquestioned authority enabled a vice president to steal funds from the organization. Which of the following best describes this condition?

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

Correct Answer: B

Section:

QUESTION 24

According to IIA guidance, which of the following are appropriate actions for the chief audit executive regarding management's response to audit recommendations?

- A. Evaluate and verify management's response, and determine the need and scope for additional work.
- B. Evaluate and verify management's response, and establish timelines for corrective action by management.
- C. Oversee the corrective actions undertaken by management, and determine the need and scope for additional work.
- D. Oversee the corrective actions undertaken by management, and establish timelines for corrective action by management.

Correct Answer: A

Section:

QUESTION 25

According to the Standards, which of the following is least important in determining the adequacy of an annual audit plan?

- A. Sufficiency.
- B. Appropriateness.
- C. Effective deployment.
- D. Cost effectiveness.

Correct Answer: D

Section:

QUESTION 26

The newly appointed chief audit executive (CAE) of a large multinational corporation, with seasoned internal audit departments located around the world, is reviewing responsibilities for engagement reports. According to IIA guidance, which of the following statements is true?

- A. The CAE is required to review, approve, and sign every engagement report.
- B. The CAE is required to review, approve, and sign all regulatory compliance engagement reports only
- C. The CAE may delegate responsibility for reviewing, approving and signing engagement reports, but should review the reports after they are issued.
- D. The internal audit charter must identify authorized signers of engagement reports.

Correct Answer: C

Section:



QUESTION 27

The internal audit activity (IAA) wants to measure its performance related to the quality of audit recommendations. Which of the following client survey questions would best help the IAA meet this objective?

- A. Were audit findings relevant and useful to management?
- B. Does the audit report format present issues clearly and concisely?
- C. Does the IAA work with a high degree of professionalism and objectivity?
- D. Were the findings reported in a timely manner?

Correct Answer: A

Section:

QUESTION 28

When forming an opinion on the adequacy of management's systems of internal control, which of the following findings would provide the most reliable assurance to the chief audit executive?

- During an audit of the hiring process in a law firm, it was discovered that potential employees' credentials were not always confirmed sufficiently. This process remained unchanged at the following audit.
- During an audit of the accounts payable department, auditors calculated that two percent of accounts were paid past due. This condition persisted at a follow up audit.
- During an audit of the vehicle fleet of a rental agency, it was determined that at any given time, eight percent of the vehicles were not operational. During the next audit, this figure had increased.
- During an audit of the cash handling process in a casino, internal audit discovered control deficiencies in the transfer process between the slot machines and the cash counting area. It was corrected immediately.

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

Correct Answer: B

Section:

**QUESTION 29**

An internal auditor and engagement client are deadlocked over the auditor's differing opinion with management on the adequacy of access controls for a major system. Which of the following strategies would be the most helpful in resolving this dispute?

- A. Conduct a joint brainstorming session with management.
- B. Ask the chief audit executive to mediate.
- C. Disclose the client's differing opinion in the final report.
- D. Escalate the issue to senior management for a decision.

Correct Answer: A

Section:

QUESTION 30

When setting the scope for the identification and assessment of key risks and controls in a process, which of the following would be the least appropriate approach?

- A. Develop the scope of the audit based on a bottom-up perspective to ensure that all business objectives are considered.
- B. Develop the scope of the audit to include controls that are necessary to manage risk associated with a critical business objective.
- C. Specify that the auditors need to assess only key controls, but may include an assessment of nonkey controls if there is value to the business in providing such assurance.
- D. Ensure the audit includes an assessment of manual and automated controls to determine whether business risks are effectively managed.

Correct Answer: A

Section:

QUESTION 31

According to IIA guidance, which of the following is true when the internal audit activity is asked to investigate potential ethics violations in a foreign subsidiary?

- A. Communication of any internal ethics violations to external parties may occur with appropriate safeguards.
- B. Cultural impacts are less critical where the organization practices uniform policies around the globe.
- C. Cross-cultural differences should always be handled by the staff of the same cultural background.
- D. Local law enforcement should be involved as they are more familiar with the applicable local laws.

Correct Answer: A

Section:

QUESTION 32

The chief audit executive of a medium-sized financial institution is evaluating the staffing model of the internal audit activity (IAA). According to IIA guidance, which of the following are the most appropriate strategies to maximize the value of the current IAA resources?

- The annual audit plan should include audits that are consistent with the skills of the IAA.
- Audits of high-risk areas of the organization should be conducted by internal audit staff.
- External resources may be hired to provide subject-matter expertise but should be supervised.
- Auditors should develop their skills by being assigned to complex audits for learning opportunities.

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

Correct Answer: D

Section:

QUESTION 33

It is close to the fiscal year end for a government agency, and the chief audit executive (CAE) has the following items to submit to either the board or the chief executive officer (CEO) for approval. According to IIA guidance, which of the following items should be submitted only to the CEO?

- A. The internal audit risk assessment and audit plan for the next fiscal year.
- B. The internal audit budget and resource plan for the coming fiscal year.
- C. A request for an increase of the CAE's salary for the next fiscal year.
- D. The evaluation and compensation of the internal audit team.

Correct Answer: D

Section:

QUESTION 34

An internal control questionnaire would be most appropriate in which of the following situations?

- A. Testing controls where operating procedures vary.
- B. Testing controls in decentralized offices.
- C. Testing controls in high risk areas.



D. Testing controls in areas with high control failure rates.

Correct Answer: B

Section:

QUESTION 35

According to IIA guidance, which of the following statements is true regarding the authority of the chief audit executive (CAE) to release previous audit reports to outside parties?

- A. The CAE can release prior internal audit reports with the approval of the board and senior management.
- B. The CAE can employ judgment and release prior audit results as they deem appropriate and necessary.
- C. The CAE can only release prior information outside the organization when mandated by legal or statutory requirements.
- D. The CAE can release prior information provided it is as originally published and distributed within the organization.

Correct Answer: B

Section:

QUESTION 36

An internal auditor has been assigned to facilitate a risk and control self-assessment for the finance group. Which of the following is the most appropriate role that she should assume when facilitating the workshop?

- A. Express an opinion on the participants' inputs and conclusions as the assessment progresses.
- B. Provide appropriate techniques and guidelines on how the exercise should be undertaken.
- C. Evaluate and report on all issues that may be uncovered during the exercise.
- D. Screen and vet participants so that the most appropriate candidates are selected to participate in the exercise.

Correct Answer: B

Section:

QUESTION 37

An audit identified a number of weaknesses in the configuration of a critical client/server system.

Although some of the weaknesses were corrected prior to the issuance of the audit report, correction of the rest will require between 6 and 18 months for completion. Consequently, management has developed a detailed action plan, with anticipated completion dates, for addressing the weaknesses. What is the most appropriate course of action for the chief audit executive to take?

- A. Assess the status of corrective action during a follow-up audit engagement after the action plan has been completed.
- B. Assess the effectiveness of corrections by reviewing statistics related to unplanned system outages, and denials of service.
- C. Reassign information systems auditors to assist in implementing management's action plan.
- D. Evaluate the ability of the action plan to correct the weaknesses and monitor key dates and deliverables.

Correct Answer: D

Section:

QUESTION 38

Which of the following is not an outcome of control self-assessment?

- A. Informal, soft controls are omitted, and greater focus is placed on hard controls.
- B. The entire objectives-risks-controls infrastructure of an organization is subject to greater monitoring and continuous improvement.
- C. Internal auditors become involved in and knowledgeable about the self-assessment process.
- D. Nonaudit employees become experienced in assessing controls and associating control processes with managing risks.

Correct Answer: A

Section:

QUESTION 39

A code of business conduct should include which of the following to increase its deterrent effect?

- 1- Appropriate descriptions of penalties for misconduct.
- 2- A notification that code of conduct violations may lead to criminal prosecution.
- 3- A description of violations that injure the interests of the employer.
- 4- A list of employees covered by the code of conduct.

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

Correct Answer: A

Section:

QUESTION 40

New environmental regulations require the board to certify that the organization's reported pollutant emissions data is accurate. The chief audit executive (CAE) is planning an audit to provide assurance over the organization's compliance with the environmental regulations. Which of the following groups or individuals is most important for the CAE to consult to determine the scope of the audit?

- A. The audit committee of the board.
- B. The environmental, health, and safety manager.
- C. The organization's external environmental lawyers.
- D. The organization's insurance department.



Correct Answer: B

Section:

QUESTION 41

The board has asked the internal audit activity (IAA) to be involved in the organization's enterprise risk management process. Which of the following activities is appropriate for IAA to perform without safeguards?

- A. Coach management in responding to risks.
- B. Develop risk management strategies for board approval.
- C. Facilitate identification and evaluation of risks.
- D. Evaluate risk management processes.

Correct Answer: D

Section:

QUESTION 42

According to IIA guidance, which of the following statements are true regarding the internal audit plan?

- 1- The audit plan is based on an assessment of risks to the organization.
- 2- The audit plan is designed to determine the effectiveness of the organization's risk management process.
- 3- The audit plan is developed by senior management of the organization.
- 4- The audit plan is aligned with the organization's goals.

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

Correct Answer: C

Section:

QUESTION 43

An internal auditor is assessing the organization's risk management framework. Which of the following formulas should he use to calculate the residual risk?

- A. $(Probability\ of\ events) \times (Control) \times (Asset\ value)$
- B. $(Probability\ of\ events) \times (Impacts) \times (Controls\ gap)$
- C. $(Probability\ of\ events) \times (Impacts)$
- D. $(Probability\ of\ events) \times (Asset\ value) \times (Vulnerability) \times (Controls)$

Correct Answer: B

Section:



QUESTION 44

Which of the following statements is false regarding roles and responsibilities pertaining to risk management and control?

- A. Senior management is charged with overseeing the establishment risk management and control processes.
- B. The chief audit executive is responsible for overseeing the evaluation risk management and control processes.
- C. Operating managers are responsible for assessing risks and controls in their departments.
- D. Internal auditors provide assurance about risk management and control process effectiveness.

Correct Answer: B

Section:

QUESTION 45

Which of the following should be included in a privacy audit engagement?

- 1- Assess the appropriateness of the information gathered.
- 2- Review the methods used to collect information.
- 3- Consider whether the information collected is in compliance with applicable laws.
- 4- Determine how the information is stored.

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

Correct Answer: D

Section:

QUESTION 46

Due to price risk from the foreign currency purchase of aviation fuel, an airliner has purchased forward contracts to hedge against fluctuations in the exchange rate. When recalculating the exchange losses from individual purchases of jet fuel, which of the following details does the internal auditor need to validate?

- 1- The hedge documentation designating the hedge.
- 2- The spot exchange rate on the transaction date.
- 3- The terms of the forward contract.
- 4- The amount of fuel purchased.

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

Correct Answer: C

Section:

QUESTION 47

Which of the following statements describes an engagement planning best practice?

- A. It is best to determine planning activities on a case-by-case basis because they can vary widely from engagement to engagement.
- B. If the engagement subject matter is not unique, it is not necessary to outline specific testing procedures during the planning phase.
- C. The engagement plan includes the expected distribution of the audit results, which should be kept confidential until the audit report is final.
- D. Engagement planning activities include setting engagement objectives that align with audit client's business objectives.

Correct Answer: D

Section:

QUESTION 48

Which of the following is not a primary purpose for conducting a walk-through during the initial stages of an assurance engagement?

- A. To help develop process maps.
- B. To determine segregation of duties.
- C. To identify residual risks.
- D. To test the adequacy of controls.

Correct Answer: D

Section:

QUESTION 49

After the team member who specialized in fraud investigations left the internal audit team, the chief audit executive decided to outsource fraud investigations to a third party service provider on an as needed basis. Which of the following is most likely to be a disadvantage of this outsourcing decision?

- A. Cost.
- B. Independence.

- C. Familiarity.
- D. Flexibility.

Correct Answer: C

Section:

QUESTION 50

Which of the following is an effective approach for internal auditors to take to improve collaboration with audit clients during an engagement?

- 1- Obtain control concerns from the client before the audit begins so the internal auditor can tailor the scope accordingly.
- 2- Discuss the engagement plan with the client so the client can understand the reasoning behind the approach.
- 3- Review test criteria and procedures where the client expresses concerns about the type of tests to be conducted.
- 4- Provide all observations at the end of the audit to ensure the client is in agreement with the facts before publishing the report.

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

Correct Answer: A

Section:

QUESTION 51

According to IIA guidance, which of the following is true regarding the exit conference for an internal audit engagement?

- A. A primary purpose of the exit conference is to provide for the timely communication of observations that call for immediate management action.
- B. Both the chief audit executive and the chief executive over the activity or function reviewed must attend the exit conference to validate the findings.
- C. The exit conference provides only anticipated results for inclusion in the final audit communication.
- D. During the exit conference, the performance of the internal auditors who executed the engagement is reviewed.

Correct Answer: C

Section:

QUESTION 52

Which of the following components should be included in an audit finding?

- 1- The scope of the audit.
- 2- The standard(s) used by the auditor to make the evaluation.
- 3- The engagement's objectives.
- 4- The factual evidence that the internal auditor found in the course of the examination.

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

Correct Answer: C

Section:

QUESTION 53

A newly promoted chief audit executive (CAE) is faced with a backlog of assurance engagement reports to review for approval. In an attempt to attach a priority for this review, the CAE scans the opinion statement on each report. According to IIA guidance, which of the following opinions would receive the lowest review priority?

- 1- Graded positive opinion.
- 2- Negative assurance opinion.
- 3- Limited assurance opinion.
- 4- Third-party opinion.

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

Correct Answer: C

Section:

QUESTION 54

After finalizing an assurance engagement concerning safety operations in the oil mining process, the audit team concluded that no key controls were compromised. However, some opportunities for improvement were noted. Which of the following would be the most appropriate way for the chief audit executive (CAE) to report these results?

- A. The CAE should send the final report to operational and senior management and the audit committee.
- B. The CAE should send the final report to operational management only, as there is no need to communicate this information to higher levels.
- C. The CAE should notify operational and senior management that the audit engagement was completed with no significant findings to report.
- D. The CAE should send the final report to operational management and notify senior management and the audit committee that no significant findings were identified.

Correct Answer: D

Section:

QUESTION 55

While conducting an audit of a third party's Web-based payment processor, an internal auditor discovers that a programming error allows customers to create multiple accounts for a single mailing address. Management agrees to correct the program and notify customers with multiple accounts that the accounts will be consolidated. Which of the following actions should the auditor take?

- 1- Schedule a follow-up review to verify that the program was corrected and the accounts were consolidated.
- 2- Evaluate the adequacy and effectiveness of the corrective action proposed by management.
- 3- Amend the scope of the subsequent audit to verify that the program was corrected and that accounts were consolidated.
- 4- Submit management's plan of action to the external auditors for additional review.

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

Correct Answer: A

Section:

QUESTION 56

An internal auditor is conducting a review of the procurement function and uncovers a potential conflict of interest between the chief operating officer and a significant supplier of IT software development services. Which of the following actions is most appropriate for the internal auditor to take?

- A. Inform the audit supervisor.

- B. Investigate the potential conflict of interest.
- C. Inform the external auditors of the potential conflict of interest.
- D. Disregard the potential conflict, because it is outside the scope of the audit assignment.

Correct Answer: A

Section:

QUESTION 57

A large retail organization, which sells most of its products online, experiences a computer hacking incident. The chief IT officer immediately investigates the incident and concludes that the attempt was not successful. The chief audit executive (CAE) learns of the attack in a casual conversation with an IT auditor. Which of the following actions should the CAE take?

- 1- Meet with the chief IT officer to discuss the report and control improvements that will be implemented as a result of the security breach, if any.
- 2- Immediately inform the chair of the audit committee of the security breach, because thus far only the chief IT officer is aware of the incident.
- 3- Meet with the IT auditor to develop an appropriate audit program to review the organization's Internet-based sales process and key controls.
- 4- Include the incident in the next quarterly report to the audit committee.

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

Correct Answer: A

Section:

QUESTION 58

During an assurance engagement, an internal auditor noted that the time staff spent accessing customer information in large Excel spreadsheets could be reduced significantly through the use of macros. The auditor would like to train staff on how to use the macros. Which of the following is the most appropriate course of action for the internal auditor to take?

- A. The auditor must not perform the training, because any task to improve the business process could impact audit independence.
- B. The auditor must create a new, separate consulting engagement with the business process owner prior to performing the improvement task.
- C. The auditor should get permission to extend the current engagement, and with the process owner's approval, perform the improvement task.
- D. The auditor may proceed with the improvement task without obtaining formal approval, because the task is voluntary and not time-intensive.

Correct Answer: C

Section:

QUESTION 59

According to IIA guidance, which of the following strategies would add the least value to the achievement of the internal audit activity's (IAA's) objectives?

- A. Align organizational activities to internal audit activities and measure according to the approved IAA performance measures.
- B. Establish a periodic review of monitoring and reporting processes to help ensure relevant IAA reporting.
- C. Use the results of IAA engagement and advisory reporting to guide current and future internal audit activities.
- D. Establish a format and frequency for IAA reporting that is appropriate and aligns with the organization's governance structure.

Correct Answer: A

Section:

QUESTION 60

During an assurance engagement, an internal auditor discovered that a sales manager approved numerous sales contracts for values exceeding his authorization limit. The auditor reported the finding to the audit supervisor, noting that the sales manager had additional new contracts under negotiation. According to IIA guidance, which of the following would be the most appropriate next step?

- A. The audit supervisor should include the new contracts in the finding for the final audit report.
- B. The audit supervisor should communicate the finding to the supervisor of the sales manager through an interim report.
- C. The audit supervisor should remind the sales manager of his authority limit for the contracts under negotiation.
- D. The auditor should not reference the new contracts, because they are not yet signed and therefore cannot be included in the final report.

Correct Answer: B

Section:

QUESTION 61

An internal auditor wants to determine whether employees are complying with the information security policy, which prohibits leaving sensitive information on employee desks overnight. The auditor checked a sample of 90 desks and found eight that contained sensitive information. How should this observation be reported, if the organization tolerates 4 percent noncompliance?

- A. The matter does not need to be reported, because the noncompliant findings fall within the acceptable tolerance limit.
- B. The deviations are within the acceptable tolerance limit, so the matter only needs to be reported to the information security manager.
- C. The incidents of noncompliance fall outside the acceptable tolerance limit and require immediate corrective action, as opposed to reporting.
- D. The incidents of noncompliance exceed the tolerance level and should be included in the final engagement report.

Correct Answer: D

Section:

QUESTION 62

Which of the following is the primary reason the chief audit executive should consider the organization's strategic plans when developing the annual audit plan?

- A. Strategic plans reflect the organization's business objectives and overall attitude toward risk.
- B. Strategic plans are helpful to identify major areas of activity, which may direct the allocation of internal audit activity resources.
- C. Strategic plans are likely to show areas of weak financial controls.
- D. The strategic plan is a relatively stable document on which to base audit planning.

Correct Answer: A

Section:

QUESTION 63

An organization has a health and safety division that conducts audits to meet regulatory requirements. The chief health and safety officer reports directly to the CEO. Which of the following describes an appropriate role for the chief audit executive (CAE) with regard to the organization's health and safety program?

- A. The CAE has no role to play, because the chief health and safety officer reports to a senior executive.
- B. The CAE should coordinate with, and review the work of, the chief health and safety officer to gain an understanding of whether risks related to health and safety are managed properly.
- C. The CAE should give periodic reports directly to the regulator regarding health and safety issues, as it is the appropriate regulatory oversight body.
- D. The CAE should hire an independent external specialist to conduct an annual assessment and provide assurance over the effectiveness of the health and safety program and the reliability of its reports.

Correct Answer: B

Section:

QUESTION 64

Which of the following factors should a chief audit executive consider when determining the audit universe?

- 1- Components of the organization's strategic plan.
- 2- Inputs from senior management and the board.
- 3- Views of competitors and business associates.
- 4- Results of exit interviews with departing employees.

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

Correct Answer: A

Section:

QUESTION 65

Which of the following evaluation criteria would be the most useful to help the chief audit executive determine whether an external service provider possesses the knowledge, skills, and other competencies needed to perform a review?

- A. The financial interest the service provider may have in the organization.
- B. The relationship the service provider may have had with the organization or the activities being reviewed.
- C. Compensation or other incentives that may be applicable to the service provider.
- D. The service provider's experience in the type of work being considered.

Correct Answer: D

Section:



QUESTION 66

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

- 1- Intervening during an audit involving ethical wrongdoing.
- 2- Discussing periodic reports of ethical breaches.
- 3- Authorizing an investigation of an unsafe product.
- 4- Negotiating a settlement of an employee claim for personal damages.

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

Correct Answer: B

Section:

QUESTION 67

According to IIA guidance, which of the following is true regarding audit supervision?

- 1- Supervision should be performed throughout the planning, examination, evaluation, communication, and follow-up stages of the audit engagement.
- 2- Supervision should extend to training, time reporting, and expense control, as well as administrative matters.
- 3- Supervision should include review of engagement workpapers, with documented evidence of the review.

- A. 1 and 2 only

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

Correct Answer: D

Section:

QUESTION 68

Which of the following best describes the four components of a balanced scorecard?

- A. Customers, innovation, growth, and internal processes.
- B. Business objectives, critical success factors, innovation, and growth.
- C. Customers, support, critical success factors, and learning.
- D. Financial measures, learning and growth, customers, and internal processes.

Correct Answer: D

Section:

QUESTION 69

Which of the following is not a direct benefit of control self-assessment (CSA)?

- A. CSA allows management to have input into the audit plan.
- B. CSA allows process owners to identify, evaluate, and recommend improving control deficiencies.
- C. CSA can improve the control environment.
- D. CSA increases control consciousness.

Correct Answer: A

Section:

QUESTION 70

An internal auditor is conducting a financial audit. Which of the following audit procedures is most appropriate when existing internal controls are weak?

- A. Analytical procedures.
- B. Detail testing.
- C. Test of design.
- D. Test of control.

Correct Answer: B

Section:

QUESTION 71

A draft internal audit report that cites deficient conditions generally should be reviewed with which of the following groups?

- 1- The client manager and her superior.
- 2- Anyone who may object to the report's validity.
- 3- Anyone required to take action.
- 4- The same individuals who receive the final report.



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

Correct Answer: C

Section:

QUESTION 72

Which of the following statements is true pertaining to interviewing a fraud suspect?

- 1- Information gathered can be subjective as well as objective to be useful.
- 2- The primary objective is to obtain a voluntary written confession.
- 3- The interviewer is likely to begin the interview with open-ended questions.
- 4- Video recordings always should be used to provide the highest quality evidence.

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

Correct Answer: C

Section:

QUESTION 73

According to IIA guidance, which of the following statements is false regarding a review of the controls in place to prevent fraud?

- A. The review should focus on the efficiency of the controls in place to prevent fraud.
- B. The scope of the review does not need to include all operating areas of the organization.
- C. The cost of the control should be compared to the benefit of mitigating the related risk.
- D. The review should assess whether the internal controls can be circumvented.

Correct Answer: A

Section:

QUESTION 74

According to IIA guidance, which of the following accurately describes the responsibilities of the chief audit executive with respect to the final audit report?

- 1- Coordinate post-engagement conferences to discuss the final audit report with management.
- 2- Include management's responses in the final audit report.
- 3- Review and approve the final audit report.
- 4- Determine who will receive the final audit report.

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

Correct Answer: D



Section:

QUESTION 75

According to IIA guidance, which of the following factors should the auditor in charge consider when determining the resource requirements for an audit engagement?

- A. The number, experience, and availability of audit staff as well as the nature, complexity, and time constraints of the engagement.
- B. The appropriateness and sufficiency of resources and the ability to coordinate with external auditors.
- C. The number, proficiency, experience, and availability of audit staff as well as the ability to coordinate with external auditors.
- D. The appropriateness and sufficiency of resources as well as the nature, complexity, and time constraints of the engagement.

Correct Answer: D

Section:

QUESTION 76

According to IIA guidance, which of the following is least likely to be a key financial control in an organization's accounts payable process?

- A. Require the approval of additions and changes to the vendor master listing, where the inherent risk of false vendors is high.
- B. Monitor amounts paid each period and compare them to the budget to identify potential issues.
- C. Compare employee addresses to vendor addresses to identify potential employee fraud.
- D. Monitor customer quality complaints compared to the prior period to identify vendor issues.

Correct Answer: D

Section:

QUESTION 77

Which of the following is an appropriate role for the internal audit activity with regard to the organization's risk management program?

- A. Identify and manage risks in line with the organization's risk appetite.
- B. Ensure that a proper and effective risk management process exists.
- C. Attain an adequate understanding of the organization's key risk mitigation strategies.
- D. Identify and ensure that appropriate controls exist to mitigate risks.

Correct Answer: C

Section:

QUESTION 78

Which of the following would not be a typical activity for the chief audit executive to perform following an audit engagement?

- A. Report follow-up activities to senior management.
- B. Implement follow-up procedures to evaluate residual risk.
- C. Determine the costs of implementing the recommendations.
- D. Evaluate the extent of improvements.

Correct Answer: C

Section:

QUESTION 79



During an audit of the accounts receivable (AR) process, an internal auditor noted that reconciliations are still not performed regularly by the AR staff, a recommendation that was made following a previous audit. Monitoring by the financial reporting function has failed to detect the shortcoming. Both the financial reporting function and AR report to the controller, who is responsible for implementing action plans. Which of the following supports the internal auditor's decision to combine both observations into one reported finding?

- A. The observation was made during the same audit, and the action plan has a common owner.
- B. The observation relates to the same control activity within a common process.
- C. The observation has a common control, and it was noted in a prior audit.
- D. The observation has a common process, and the action plan for the observation has a common owner.

Correct Answer: D

Section:

QUESTION 80

A chief audit executive (CAE) received a detailed internal report of senior management's internal control assessment. Which of the following subsequent actions by the CAE would provide the greatest assurance over management's assertions?

- A. Assert whether the described and reported control processes and systems exist.
- B. Assess whether senior management adequately supports and promotes the internal control culture described in the report.
- C. Evaluate the completeness of the report and management's responses to identified deficiencies.
- D. Determine whether management's operating style and the philosophy described in the report reflect the effective functioning of internal controls.

Correct Answer: C

Section:

QUESTION 81

In which of the following situations would an internal auditor consider the need to outsource competencies and skills?

- A. During the inspection of a wind turbine, an internal auditor notices that some replaced parts took used According to purchase documents, the parts still have a long lifespan.
- B. The auditor believes that the audit client's actions contradict the organization's code of conduct The audit client disagrees and says his actions are for the organization's benefit
- C. An audit team member is allocated to conduct an assurance engagement in the sales unit. However, the same auditor performed an assurance engagement in that area just one year prior
- D. During an inventory count, the auditor ascertained that some goods were missing. The audit client argues that the auditor does not understand how inventory should be counted

Correct Answer: A

Section:

QUESTION 82

Which of the following is the most important determinant of the objectives and scope of assurance engagements?

- A. The organizational chart, business objectives and policies and procedures of the area to be reviewed.
- B. The most recent risk assessment conducted by management of the area to be reviewed.
- C. The requests of operational and senior management throughout the organization.
- D. The preliminary risk assessment performed by internal auditors planning the engagement

Correct Answer: D

Section:



QUESTION 83

Which of The following best describes a risk that is deemed "unacceptable" to the organization?

- A. A risk where likelihood and impact are high
- B. A risk where inherent risk exceeds its residual risk
- C. A risk where inherent risk exceeds the tolerance level
- D. A risk where residual risk exceeds the tolerance level

Correct Answer: D

Section:

QUESTION 84

An organization has a mature control environment but limited internal audit resources Given this scenario, on which of the following should the internal auditors focus their testing?

- A. Detective compensating controls
- B. Preventive compensating controls
- C. Detective Key controls
- D. Preventive key controls

Correct Answer: D

Section:

QUESTION 85

What is the primary purpose of creating a preliminary draft audit report?

- A. To save time during final report writing
- B. To meet the Standards requirement for developing a draft report prior to issuing a final report
- C. To use as a tool for communicating with management of the area under review.
- D. To require that management implements solutions to issues identified during the engagement

Correct Answer: C

Section:

QUESTION 86

A newly appointed chief audit executive (CAE) of a small organization is developing a resource management plan Which of the following approaches would be most beneficial to help the CAE obtain details of the Internal audit activity's collective knowledge skills, and other competencies?

- A. Review or establish a documented skills assessment of the internal audit staff and gather information from post-audit surveys
- B. Obtain from the human resources department the job descriptions and position requirements for all internal audit staff
- C. Conduct an objective written test of the internal audit staff to assess their knowledge and skills related to core internal audit competencies
- D. Request the internal audit staff to submit a document that summarizes their most recent performance appraisals and post audit reviews

Correct Answer: A

Section:

QUESTION 87

The engagement supervisor would like lo change the audit program's scope poor to beginning fieldwork According to IIA guidance before any change is implemented what is the most important action that should be



undertaken?

- A. Document in the engagement workpapers the rationale for changing the scope.
- B. Confirm that the scope change would align to the organization's objectives and goals
- C. Confirm that the internal audit activity continues to have the necessary knowledge and skills
- D. Seek approval from the chief audit executive for the proposed scope change

Correct Answer: D

Section:

QUESTION 88

An internal auditor suspects that employee turnover is unusually high at the organization's primary manufacturing plant To investigate this potential issue which of the following analytical approaches is the auditor likely to use?

- A. Ratio analysis
- B. Vertical analysis
- C. Benchmarking
- D. Cost-benefit analysis.

Correct Answer: C

Section:

QUESTION 89

Which of The following best justifies an internal auditor's decision to issue a preliminary audit report?

- A. The internal audit team and audit client have a serious dispute over the scope and objective of the engagement
- B. The internal audit team expects management to address certain issues immediately due to their severe impact
- C. The internal audit team anticipates that the formal final audit report would be undesirable for management due to the significance of outlined risks
- D. The internal audit team would like to issue a clean final audit report without any material observations or risks

Correct Answer: B

Section:

QUESTION 90

Which of the following should be the focus of the effect section of the preliminary observations document?

- A. Residual risk
- B. Inherent risk
- C. Compensating controls
- D. Control activities

Correct Answer: B

Section:

QUESTION 91

An internal auditor is assigned to validate calculations on the organization's building application As part of the test the internal auditor is required to use an automated audit tool to simulate transactions for testing. Which of the following would most appropriately be used for this purpose?

- A. Generalized audit software.
- B. Utility software
- C. integrated test facilities
- D. Audit expert systems

Correct Answer: C

Section:

QUESTION 92

Which of the following statements about assurance maps is correct?

- A. An assurance map is used by the chief audit executive to coordinate assurance activities with other internal and external assurance providers
- B. An assurance map is a picture of all assurance engagements performed by the internal audit activity across the organization
- C. An assurance map is used by the engagement supervisor to coordinate the roles of various internal audit team members assigned to assurance engagements
- D. An assurance map lists the procedures and testing activities performed by an internal audit team during an assurance engagement

Correct Answer: A

Section:

QUESTION 93

The chief audit executive (CAE) for a manufacturing company included in this year's audit plan a review of the company's laboratory, using an experienced external service provider. The audit plan was approved by the audit committee without any changes. At the time of engaging the external service provider, the CAE also secured the approval from the CEO. Who is responsible for ensuring that the conclusions reached for this exercise are adequately supported?

- A. Audit committee
- B. CEO
- C. CAE.
- D. External service provider

Correct Answer: C

Section:

QUESTION 94

Which of the following is most likely to be judged as a significant residual risk that would exceed the organization's acceptable risk level?

- A. Any risk involving organizational expansion into a new geographical area with an unstable political environment.
- B. Any risk involving investments into bitcoin and suspicious derivatives
- C. Any risk that can cause material or financial loss
- D. Any risk that could cause injuries or pollute the environment

Correct Answer: C

Section:

QUESTION 95

An internal auditor is testing the success of the IT support department in meeting the service levels guaranteed to small, medium and large customers. The customer's size classification is based on its annual expenditures with the organization and the nature and extent of services it receives. Which of the following sampling techniques would be the most suitable to select customers for this test?

- A. Interval sampling
- B. Cluster sampling
- C. Stop-and-go sampling
- D. Stratified sampling

Correct Answer: D

Section:

QUESTION 96

An audit observation noted that annual inventory counts of biofuel was not being performed appropriately Fuel yards were not visited and physical amounts of biofuel were not reconciled with accounting data Management of the division understood the issue and promised to resolve the problem When should the internal auditor schedule a follow-up review?

- A. As soon as possible, no later than two months after the audit
- B. When convenient for both parties
- C. When management has indicated that the issue has been resolved
- D. Before financial year end

Correct Answer: C

Section:

QUESTION 97

A chief audit executive (CAE) is trying to balance the internal audit activity's needs for technical audit skills budget efficiency and staff development opportunities. Which of the following would best assist the CAE in achieving this balance1?

- A. Strategic sourcing
- B. Loan staff arrangement
- C. Flat organizational structure
- D. Hierarchical organizational structure

Correct Answer: A

Section:

QUESTION 98

An internal auditor receives a document displaying all the steps of a process and the path taken as transactions flow between each step of the process How is the internal auditor most likely to use This document during the engagement?

- A. To perform an assessment of the adequacy of process controls.
- B. To perform an assessment of the effectiveness of process controls
- C. To perform a detailed assessment of process risks
- D. To perform an assessment of the sufficiency of residual process risks.

Correct Answer: B

Section:

QUESTION 99

An internal auditor is asked to review a recently completed renovation to a retail outlet. Which of the following would provide the most reliable evidence that the completed work conformed to the plan?

- A. An interview with the employee who performed the work
- B. An analysis of purchasing and receiving documentation
- C. Existence of a signed completion document accepting the work
- D. A physical inspection of the retail outlet.

Correct Answer: C

Section:

QUESTION 100

When addressing the excessive overtime being paid to employees in an organization's customer service call center, which of the following would be most relevant for the internal auditor to use?

- 1 Confirmation.
- 2- Trend analysis.
- 3 External benchmarking
- 4- Internal benchmarking

- A. 1.2 and 3
- B. 1.2- and 4.
- C. 1.3- and 4.
- D. 2- 3- and 4.

Correct Answer: B

Section:

QUESTION 101

The chief audit executive can illustrate the value of the internal audit activity by reporting which of the following to the board?

- A. The overall performance resulting from the internal audit balanced scorecard
- B. The number of outstanding and overdue management actions
- C. The experience of the organization's internal auditors
- D. The number of audits in the annual audit plan relative to similar organizations

Correct Answer: A

Section:

QUESTION 102

Management has taken immediate action to address an observation received during an audit of the organization's manufacturing process. Which of the following is true regarding the validity of the observation closure?

- A. Valid closure requires evidence that ensures the corrected process will function as expected in the future
- B. Valid closure requires the client to address not only the condition, but also the cause of the condition
- C. Valid closure of an observation ensures it will be included in the final engagement report
- D. Valid closure requires assurance from management that the original problem will not recur in the future

Correct Answer: A

Section:

QUESTION 103



In a health care organization the internal audit activity provides overall assurance on governance, risk and control. The chief audit executive advises and influences senior management, and the audit strategy leverages the organization's management of risk. According to IA guidance, which of the following stages of internal audit maturity best describes this organization?

- A. Infrastructure.
- B. Emerging.
- C. Managed.
- D. Initial.

Correct Answer: C
Section:

QUESTION 104

An internal auditor conducted interviews with several employees, documented the interviews, analyzed the summaries, and drew a number of conclusions. What sort of audit evidence has the internal auditor primarily obtained?

- A. Documentary evidence
- B. Testimonial evidence
- C. Analytical evidence
- D. Physical evidence

Correct Answer: A
Section:

QUESTION 105

Which of the following situations is most critical for the chief audit executive to report to the board?

- A. The chief audit executive disagreed with the business unit manager's initial decision to accept a particular risk. Management ultimately agreed to address the risk only after discussing the issue with senior management.
- B. The internal audit activity was restructured, which resulted in a significant change in responsibilities among audit managers and supervisors for some audits.
- C. A staff internal auditor had difficulties completing a portion of the audit because management of the area under review was unwilling to cooperate and provide information timely.
- D. The resignation of an internal audit manager during the year caused the chief audit executive to defer a number of audit engagements to the following year.

Correct Answer: D
Section:

QUESTION 106

Which of the following statements regarding the risk management process' support of the internal audit activity is true?

- A. The risk management process can provide more extensive internal audit services to the organization if it does not have an internal audit department.
- B. The risk management process supports internal audit by evaluating whether critical controls are adequate and effective.
- C. The risk management process can determine whether all significant risks have been identified and are being treated.
- D. The risk management process establishes an organization-specific documented risk management framework.

Correct Answer: A
Section:

QUESTION 107

An internal auditor observes a double payment transaction on a supplier invoice during an accounts payable engagement. Which of the following steps would be the most effective in helping the auditor determine whether

fraud exists?

- A. Switch the existing assurance engagement into a fraud investigation engagement
- B. Extend the audit scope and perform additional testing of controls on other related areas
- C. Review the poor year's transaction volume and amounts paid compared to the poor year's budget
- D. Perform data analytics on the supplier's information, invoiced amounts, and payments performed

Correct Answer: D

Section:

QUESTION 108

The final engagement communication contains the following observation:

The internal auditor discovered that three of the 10 contracts reviewed failed to meet the organization's competitive bidding requirements. Management explained that senior management deemed these purchases to be critical and awarded them as sole-source." Which of the following components is missing in the documentation of the observation?

- A. Criteria.
- B. Effect
- C. Condition
- D. Cause

Correct Answer: B

Section:

QUESTION 109

According to HA guidance, the chief audit executive is directly responsible for which of the following?

- A. Maintaining a quality assurance program even in the absence of management support
- B. Periodically reviewing and approving the internal audit charter
- C. Providing opportunities for all staff auditors to satisfy their professional development requirements
- D. Establishing the objectives, scope and plan for each engagement

Correct Answer: B

Section:

QUESTION 110

A corporate merger decision prompts the chief audit executive (CAE) to propose interim changes to the existing annual audit plan to account for emerging risks. Which of the following is the most appropriate action for the CAE to take regarding the changes made to the audit plan?"

- A. Present the revised audit plan directly to the board for approval.
- B. Communicate with the chief financial officer and present the revised audit plan to the CEO for approval
- C. Present the revised audit plan directly to the CEO for approval
- D. Communicate with the CEO and present the revised audit plan to the board for approval.

Correct Answer: B

Section:

QUESTION 111

Which of the following is the primary reason for internal auditors to conduct interim communications with management of the area under review?

- A. To demonstrate good project oversight
- B. To provide timely discussion of results
- C. To demonstrate internal auditor proficiency
- D. To follow up on previously requested information

Correct Answer: D

Section:

QUESTION 112

An internal auditor tested whether purchase orders were supported by appropriately approved purchase requisitions. She sampled a population of purchase documents and identified instances where purchase requisitions were missing. However, she did not notice that in some cases purchase requisitions were approved by an unauthorized person. Which of the following risks most appropriately describes this situation?

- A. Nonsampling risk
- B. Sampling risk
- C. Inherent risk
- D. Due diligence risk

Correct Answer: A

Section:

QUESTION 113

Which of the following sampling techniques is typically used when an internal auditor wants to test a large sample for fraud?

- A. Stratified sampling
- B. Haphazard sampling
- C. Discovery sampling
- D. Probability-proportional-to-size sampling

Correct Answer: C

Section:

QUESTION 114

Which of the following describes the primary reason why a preliminary risk assessment is conducted during engagement planning?

- A. To identify the greatest risks organizationwide
- B. To ensure that the engagement work program covers all risk areas
- C. To ensure that risks identified during previous audits of the area have been adequately addressed
- D. To ensure that significant risks are included in the engagement scope

Correct Answer: D

Section:

QUESTION 115

Senior management requested that the internal audit activity perform a consulting project to assist in making a decision on a new software system. Which of the following would be used to determine the engagement objectives?

- A. An assessment of risks to the business objectives
- B. An understanding of the engagement client's expectations
- C. The probability of significant errors fraud or noncompliance
- D. Criteria previously established by the board

Correct Answer: B

Section:

QUESTION 116

Which of the following is true about surveys?

- A. A survey with open-ended questions is weaker than a structured interview
- B. A survey with closed-ended questions can produce quantifiable evidence
- C. A survey's participants are likely to volunteer information that was not specifically requested
- D. A survey, like inspections and confirmations are best used to test the operating effectiveness of controls

Correct Answer: B

Section:

QUESTION 117

According to IIA guidance, which of the following reflects a valid principle for the internal audit activity to rely on the work of internal or external assurance providers?

- A. Elements of evaluation
- B. Elements of organization
- C. Elements of practice
- D. Elements of confidentiality



Correct Answer: A

Section:

QUESTION 118

Which method of examining entity-level controls involves gathering information from work groups that represent different levels in an organization?

- A. Questionnaires.
- B. Surveys.
- C. Structured interviews
- D. Facilitated team workshops

Correct Answer: C

Section:

QUESTION 119

During a consulting engagement an internal auditor wants to determine whether all principal stakeholders are involved in a project. Which tool should the auditor use?

- A. RACI (responsible, accountable, consult and inform) chart
- B. Flowchart

- C. SWOT{strengths, weaknesses opportunities, and threats) analysis
- D. Workflow analysis

Correct Answer: A

Section:

QUESTION 120

During the filework phase of an assurance engagement the internal auditor decides that she wants to adjust the audit work program. Which of the following is the most appropriate next step for the auditor to take?

- A. Request additional information needed from management of the area under review.
- B. Obtain approval from the engagement supervisor
- C. Obtain the required resources, including IT, to complete the work
- D. Discuss the change in scope with management of the area under review.

Correct Answer: D

Section:

QUESTION 121

Which of the following would present the most critical external risk to an organization?

- A. The organization experiences a merger, and the management team is reorganized and redistributed globally
- B. The organization launches a product into new global markets
- C. After minimal testing, the organization implements a new system to replace a legacy system
- D. Regulators announce broad legislative reforms applicable to the industry within which the organization operates

Correct Answer: D

Section:

QUESTION 122

Which of the following computerized audit tools or techniques should be used if the internal auditor wants to extract specific files and records in the database?

- A. An expert or decision support system
- B. Generalized audit software
- C. A system utility program
- D. An integrated test facility

Correct Answer: C

Section:

QUESTION 123

In which of the following situations would an internal control questionnaire best suit the internal auditor's purpose?

- A. The auditor wants to receive mid-level management insight on how to improve hiring practices
- B. The auditor wants to obtain information on whether adherence to approval matrices is actually taking place in different maintenance units.
- C. The auditor wants to gain assurance that inventory counts are conducted in accordance with established procedures.
- D. The auditor wants to assess whether different subsidiaries apply centrally established procurement rules in the same manner

Correct Answer: C

Section:

QUESTION 124

Which of the following is a disadvantage of using flowcharts during a risk assessment?

- A. People cannot quickly understand the processes via flowcharts
- B. Flowcharts are not applicable for evaluating the design of controls
- C. Some serious risks that are not part of the linear process can be missed
- D. Flowcharts do not enable auditors to identify missing controls

Correct Answer: C

Section:

QUESTION 125

While planning for an accounts payable audit an internal auditor performs an entity level controls analysis. Which of the following statements is true regarding the approach used by the auditor?

- A. It enables the auditor to identify the inherent risks to the effective operation of accounts payable process controls.
- B. It enables the auditor to understand the framework of the activities and associated accounts payable subprocesses
- C. It enables the auditor to understand the accounts payable process and its flow, including key steps and systems.
- D. It enables the auditor to categorize the population of transactions within the accounts payable process

Correct Answer: C

Section:

QUESTION 126

The chief audit executive was asked to define the internal audit activity's key performance indicators (KPIs) for the upcoming year. The KPIs must measure efficiency and effectiveness. Which of the following is an example of a KPI that measures effectiveness?

- A. Internal audit reports are consistently submitted prior to the audit report deadline
- B. Post engagement surveys completed by management indicate a "meets or exceeds expectations" rating
- C. There is a significant reduction of travel costs per project over the next fiscal year
- D. Internal auditors identify a minimum number of issues and provide recommendations to address them for each audit

Correct Answer: B

Section:

QUESTION 127

An internal auditor was assigned to review controls in the accounts payable function. Most of the accounts payable processes are performed by a third-party service provider. The auditor included in the audit report a number of control deficiencies involving processes performed by the service provider. The service provider requested a copy of the report. Which of the following would be the most appropriate response from the chief audit executive (CAE)?

- A. The CAE would automatically send a copy of the report to the service provider as many of the findings relate to the area managed by the service provider
- B. The CAE may distribute the report to the service provider at no cost, after consulting with legal counsel and the chief compliance officer
- C. The CAE may provide a copy of the audit report to the service provider if an agreement is signed and the service provider agrees to reimburse the cost of the audit. The CAE should benchmark with other organizations in the industry by consulting with colleagues and distribute the report only if it is an acceptable practice in the industry
- D. The CAE should benchmark with other organizations in the industry by consulting with colleagues and distribute the report only if it is an acceptable practice in the industry



Correct Answer: A

Section:

QUESTION 128

As a result of server managements assumption of risk there is residual risk that exceeds me organisation's risk appetite. Which of the following actions would be most appropriate for the chief audit executive to take?

- A. ignore the responsibility of addressing the residual risk
- B. Assume the responsibility of addressing the residual risk
- C. Ensure senior management acknowledges residual risk
- D. Communicate with the board the issue of residual risk

Correct Answer: D

Section:

QUESTION 129

An internal auditor at a bank informed the branch manager of a malfunctioning lock on one of the vaults. The risk associated with this issue was deemed significant by the chief audit executive (CAE), and immediate remediation was recommended. However during a follow-up engagement the branch manager told the CAE that the risk was actually not significant, hence no action was taken. What is the most appropriate next step for the CAE?

- A. Inform senior management that the branch manager decided to cancel the committed action plan without any previous communication
- B. Discuss the issue with the board which has ultimate responsibility to resolve the risk
- C. Have another discussion with the branch manager attempt to change his view, and encourage him to movement the recommendations
- D. Document the branch manager's decision to accept the risk otherwise, no other speak: course of action is required.

Correct Answer: A

Section:

QUESTION 130

In which of the following ways can the internal audit activity new engagement opportunities?

- A. By defining activities by business processes.
- B. By looking external factors such as product complaints.
- C. By looking at activities by businesses cost centers.
- D. By defining activities by the organization chart.

Correct Answer: B

Section:

QUESTION 131

For an action plan to be effective, it should be designed primarily to address which of the following elements of an observation?

- A. Condition
- B. Root cause
- C. Criteria
- D. Recommendation

Correct Answer: B

Section:

QUESTION 132

Which of the following statements is true regarding internal controls?

- A. For assurance engagements internal auditors should plan to assess the effectiveness of all entity-level controls
- B. Poorly designed or deficient entity-level controls can prevent well-designed process controls from working as intended.
- C. During engagement planning, internal auditors should not discuss the identified key risks and controls with management of the area under review to prevent tipping off probable audit lasts
- D. Reviewing process maps and flowcharts is an appropriate method for the internal auditor to identify all key risks and controls during engagement planning

Correct Answer: B

Section:

QUESTION 133

An engagement work program of greatest value to audit management when which of the following is true?

- A. The work program provides more detailed support for the audit report
- B. The work program helps determine the required amount of audit resources
- C. The work program helps ensure the achievement of the engagement objectives
- D. The work program assists the auditor in developing and managing audit tests

Correct Answer: B

Section:

QUESTION 134

According to IIA guidance, which of the following actions should the internal auditor take immediately after having considered fraud scenarios and identified and prioritized fraud risks?

- A. Determine which controls, if any, are in place to mitigate the fraud risks
- B. Follow protocol for internal reporting and investigating fraud allegations
- C. Research frauds that have occurred in similar organizations
- D. Incorporate the fraud risk assessment into the engagement plan

Correct Answer: A

Section:

QUESTION 135

Which of the following approaches would best help an internal auditor determine whether a retailer database of 100,000 customers has any duplicate accounts?

- A. Stratifying the customer information
- B. Extracting the customer information
- C. Filtering the customer information
- D. Sorting the customer information

Correct Answer: C

Section:

QUESTION 136



An internal auditor developed a list of internal and external risk considerations across the organization's processes, developed a scale to assess each risk and allocated the relative importance of each risk. When of the following approaches did the auditor take?

- A. Top-down approach
- B. Process-Matrix approach
- C. Risk-factor approach
- D. Bottom up approach

Correct Answer: B
Section:

QUESTION 137

A healthcare organization's chief audit executive (CAE) noted that the organization's IT team relies heavily on a vendor. Therefore an IT vendor assessment review was added to the annual audit plan. During the review, the audit team discovered that the vendor had not been performing proper monitoring to ensure that the subcontractors it hired comply with the organization requirements. The organization's chief information officer (CIO) does not agree with the audit team's recommendation for the IT team to monitor the compliance level of vendor subcontractors. How should the audit team proceed to resolve this situation?

- A. Write a risk acceptance memo for the CIO to sign acknowledging the observation and indicating a willingness to accept the risk.
- B. Provide an example of the attestation form that vendors must use. Then, recommend that the IT team require vendors to submit the attestation form on a regular basis.
- C. Escalate the issue to the audit committee, as the CIO is unwilling to implement the recommended action plan.
- D. Escalate the issue to the CAE to assess whether the CIO's reasoning is acceptable.

Correct Answer: D
Section:



QUESTION 138

When presenting an observation in writing which of the following is usually true regarding the level of detail provided?
1- The description of the observation in the final audit report contains more detail than the description in the engagement workpapers
2- The description of the observation in the engagement workpapers contains more detail than the description in a preliminary observation document
3- A preliminary observation document contains more detail than the observation description in the final audit report
4- A preliminary observation document contains more detail than the observation description in the engagement workpapers

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

Correct Answer: C
Section:

QUESTION 139

Which of the following attribute sampling methods would be most appropriate to use to measure the total misstatement posted to an accounts payable ledger?

- A. Stop-or-go sampling
- B. Probability to proportional size sampling
- C. Classical variable sampling
- D. Discovery sampling

Correct Answer: C

Section:

QUESTION 140

Which of the following should be described in the recognition element of a typical internal audit report?

- A. Positive aspects of the process or area under review
- B. A brief synopsis of the process of area under review
- C. Outcomes and ratings of the process or area under review
- D. Report issuance and the communication process of the engagement.

Correct Answer: A

Section:

QUESTION 141

Which statistical sampling approach would an internal auditor typically utilize if she wishes to test for fraud and the expected deviation rate is very low?

- A. Stratified sampling
- B. Attribute sampling
- C. Discovery sampling
- D. Haphazard sampling

Correct Answer: B

Section:

QUESTION 142

Which of the following engagement supervision activities should be performed first?

- A. Ensure that internal audit recommendations are practical, cost-effective, and value-added
- B. Ensure that internal audit conclusions are based on sufficient and reliable evidence
- C. Ensure that risks to the timely completion of the engagement are assessed
- D. Ensure that performance assessments are completed for audit team members

Correct Answer: C

Section:

QUESTION 143

Which of the following would most likely prompt special notification from the chief audit executive to same management?

- A. Operational management has decided to weigh an audit issue against the organization's risk tolerance
- B. A controls inaccurate operation has materially impacted the accuracy of the prior year's financial statements
- C. Occurrences of asset misappropriation have been identified as a result of an ineffective operational control design
- D. The controls that management performed to confirm compliance with health and safety standards were not systematically documented

Correct Answer: A

Section:



QUESTION 144

According to the IIA guidance, which of the following does the engagement work test in a review in a review of an organizational process?

- A. Process objectives
- B. Process risks
- C. Process controls
- D. Process scope

Correct Answer: C

Section:

QUESTION 145

When a significant finding is noted early during a review of the accounts payable function, which next course of action is best for communicating the issue?

- A. Intern accounting management via an interim memorandum update
- B. Note the item in the workpapers for inclusion in the final audit report
- C. Call a meeting and discuss the issue with the audit committee
- D. Alert the CEO as soon as the issue is discovered

Correct Answer: D

Section:

QUESTION 146

Which of the following manual audit approaches describes testing the validity of a document by following it backward to a previously prepared record?

- A. Tracing
- B. Reperformance
- C. Vouching
- D. Walkthrough

Correct Answer: C

Section:

QUESTION 147

An internal auditor wants to compare performance information from one quarter to another. Which analytics procedure would the auditor use?

- A. Ratio analysis
- B. Trend analysis
- C. Vertical analysis
- D. Benchmarking analysis

Correct Answer: A

Section:

QUESTION 148

An internal auditor wanted to determine whether the organization's 200 employees are charging their work hours accurately to the correct project. The internal auditor selected a sample of 30 employee time reports for testing. Based on the testing, the internal auditor determined the following:

- 5 Time reports were incorrect.
- 21 Time reports were correct.
- 4 Time reports were not supported.

- A. The organization has significant flaws in its reporting of employee time, which could lead to the overstatement of project labor costs. The organization's failure to report accurate and complete employee time could lead to potential fraud and abuse.
- B. The organization needs to ensure that all reporting of employee time is accurate and complete for each of its projects By dang so the organization can minimize potential issues related to overstating employee tames and labor project costs.
- C. The organization overstated project costs due to inaccurate and incomplete reporting of employee time charged to the affected accounts As a result the organization cannot ensure at protects costs are accurately reported to stakeholders
- D. The organization generally ensured that employee hours charged to each project were accurate and complete. However, there were instances of employee time reports that were incorrect or not supported to justify the multiple project labor coats

Correct Answer: B

Section:

QUESTION 149

The chief audit executive (CAE) determined that the residual risk identified in an assurance engagement is acceptable. When should this be communicated to senior management?

- A. When the CAE reports the audit outcome to senior management.
- B. When the residual risk is identified before the engagement is complete.
- C. Immediately, as residual risk should be communicated as soon as possible
- D. When management of the area under review has resolved and mitigated the residual risk

Correct Answer: C

Section:

QUESTION 150

Which of the following information is most appropriate for the chief audit executive to share when coordinating audit plans with other internal and external assurance providers?

- A. Objectives scope and timing at a high level to support coordination while adhering to confidentiality requirements
- B. The area and timing of the audit engagement to ensure confidentially and avoid conflict of interest.
- C. All plan information, including risk assessments, planned tests and past results to maximize the opportunity for coordination with internal and external providers.
- D. No information should be shared with internal and external provider as it could introduce bias into the engagement results.

Correct Answer: B

Section:

QUESTION 151

An internal auditor s testing tor proper authorization of contracts and finds that the rate of deviations discovered in the sample is equal to the tolerable deviation rate. When of the following is the most appropriate conclusion for the internal auditor to make based on this result?

- A. The internal auditor concludes that management may be placing undue reliance on me specified control
- B. The internal auditor concludes that the specified control is more effective than it really is.
- C. The internal auditor concludes that the specified control is acceptably effective
- D. The internal auditor concludes that additional testing will be required to evaluate the specified control



Correct Answer: C

Section:

QUESTION 152

According to IIA guidance, which of the following would be considered necessary for a one-person audit function?

- A. A formalized technical audit manual
- B. A written administrative audit manual
- C. A memorandum stating policies and procedures
- D. A comprehensive policy and procedure manual

Correct Answer: D

Section:

QUESTION 153

During the planning phase of an assurance engagement, an internal auditor seeks to gain an understanding of how when the area under review is accomplishing its objectives. When of the following information-gathering techniques is the auditor most likely to use?

- A. A review of the key performance indicators of the area under review.
- B. A walkthrough of the key processes of the area under review.
- C. An interview with the manager regarding the area's business plan.
- D. A review of previous audit and follow-up results of the area under review.

Correct Answer: B

Section:

QUESTION 154

What is the purpose of an internal control questionnaire?

- A. To gather information from a sample of people who are geographically dispersed
- B. To assess risks that could prevent an audited area from achieving its objectives.
- C. To evaluate the level of compliance of remote offices with centrally designed procedures
- D. To perform testing of controls more frequently

Correct Answer: A

Section:

QUESTION 155

Which of the following engagement techniques would be best to meet the objective of detecting a personal conflict-of-interest situation affecting an organization's procurement function?

- A. Inquiry
- B. Analytical review
- C. Observation
- D. Inspection of documents

Correct Answer: A

Section:



QUESTION 156

An internal auditor is planning a consuming engagement and the objective is to identify opportunities to improve the efficiency of the organization's procurement process. The auditor is preparing to conduct a preliminary survey of the area.

Which of the following approaches would be most useful to obtain relevant information to support the engagement objective?

- A. Complete a transaction walkthrough that focuses on the design and operation of financial reporting controls
- B. Conduct interviews with senior management to obtain their input and insights regarding operational controls.
- C. Perform a comprehensive review of the organization's existing policies and standard operating procedures.
- D. Review the procurement process map with employees who carry out key activities to obtain their input and insights.

Correct Answer: D

Section:

QUESTION 157

Besides a chief audit executive's professional experience what determines the frequency and approach to assessing residual risk?

- A. The frequency of executing the internal audit engagements
- B. The frequency of changes in the organization environment
- C. The expectations set by the board and senior management
- D. The expectations set by operating management and senior management

Correct Answer: B

Section:

QUESTION 158

Upon the completion of an audit engagement an audit manager performs a review of a staff auditor's workpapers. Which of the following actions by the manager is the most appropriate this review?"

- A. Communicate the workpaper review results to management of the area under review to validate the final report
- B. Update the final report in the file with any necessary corrections based on the workpaper review.
- C. Discuss the workpaper review results with the staff auditor where appropriate as a learning opportunity
- D. Add the manager's review notes to the final documentation following the review

Correct Answer: C

Section:

QUESTION 159

An internal auditor using the five-attribute approach to document deficiencies in a warehouse shipping process. Which of the following attributes will be included in the workpapers?

- A. Risk, impact likelihood existing control, recommendation
- B. Condition, cause, effect, recommendation
- C. Condition, cause effect test result
- D. Risk, impact test result recommendation

Correct Answer: B

Section:

QUESTION 160

Which of the following activities is an internal auditor most likely to perform when establishing the objectives of an assurance engagement?

- A. Discuss the internal audit risk assessment including applicable risks and objectives with internal audit management
- B. Perform a walk-through of the process under review to determine whether controls were operating, effectively
- C. Identify when controls will be tested and the sampling method to be used based on control risk
- D. Meet with operational management to team about any areas of concern and to agree on the engagement objectives

Correct Answer: B

Section:

QUESTION 161

An IT auditor is reviewing the access controls in an organization's accounting application. The auditor intends to deploy a tool that can help test the logical controls embedded in the system to ensure employee access is granted according to need. Which of the following would help achieve this objective?

- A. Utility software
- B. Generalized audit software
- C. Audit expert systems.
- D. integrated test facility

Correct Answer: B

Section:

QUESTION 162

An internal auditor has suspicions that the management of a department splits the number of planned purchases to avoid the approval process required for larger purchases. Which of the following would be the most efficient technique to help the auditor identify the severity of this malpractice?

- A. Examining the entire population
- B. Asking management about the malpractice
- C. Testing a sample of random transactions.
- D. Using data analytics

Correct Answer: D

Section:

QUESTION 163

To compete in the global market, an organization is restructuring and consolidating many of its divisions. Prior to the consolidation, senior management requested assistance from the internal audit activity. Which of the following consulting services would be most appropriate in this situation?

- A. Assess controls for potential compliance issues that may affect the consolidation
- B. Brief vendors on the potential risks that will occur without continued business
- C. Advise division managers on how to streamline operations for better efficiency
- D. Determine whether the organization's controls are effective in meeting business objectives

Correct Answer: C

Section:

QUESTION 164

Acceding to MA guidance, when of the Mowing strategies would like provide the most assurance to the chief audit executive (CAE) that the internal audit activity's recommendations are being acted upon?

- A. The CAF obtains a formal response from senior management regarding the corrective actions they plan to take w address the recommendations.
- B. The CAE develops a tracking system to monitor the stains of engagement recommendations reported to management for action
- C. The CAE communicates with impacted department managers to determine whether corrective actions have addressed engagement recommendations
- D. The CAE works with the engagement supervisor to monitor the recommendations issued to management for corrective action

Correct Answer: B

Section:

QUESTION 165

Which of the following statements generally true regarding audit engagement planning?

- A. The best source tor detailed process information is senior management
- B. Audit objectives should be general and do not change.
- C. Computer-assisted audit techniques are typically not useful during engagement planning
- D. Internal auditors should prepare a dented audit program for testing controls

Correct Answer: B

Section:

QUESTION 166

Which of the blowing is an example of a compliance assurance engagement?

- A. Proving in-house training to senior management regarding applicable laws and regulations
- B. Proving an assessment of the design adequacy of controls related to consumer privacy and confidentiality.
- C. Providing an assessment of customer satisfaction with customer service provided by the organization
- D. Providing testing on the operating effectiveness of controls ever the reliability of financial reporting

Correct Answer: B

Section:

QUESTION 167

An internal auditor is preparing an internal control questionnaire for the procurement department as part of a preliminary survey. Which of the following would provide the best source of information for questions?

- A. A relevant procurement law or regulation.
- B. A list of the company's vendors.
- C. A review of a sample of tenders during the audited period.
- D. A summary of the company's expenditures and their categories.

Correct Answer: A

Section:

QUESTION 168

- A. Reviewing quality department survey results, which show 96% of employees believe all defective products are removed prior To shipping.
- B. Physically inspecting a sample of completed processing cycles for detective products prior to shipment.

- C. Observing employees while they raped products for defects
- D. Reviewing a quality report provided by management mat snows 13 products were identified and removed during me most recent processing cycle

Correct Answer: B

Section:

QUESTION 169

According to IIA guidance, which of the following is the most appropriate action to be taken by the chief executive (CAE) if management refuses to accept audit recommendations and implement corrective actions, Even after escalation to senior management?

- A. The CAE should continue to meet with management to obtain their agreement for corrective action
- B. The CAE should note in the final report that management has decided to accept the risk.
- C. The CAE should ask that additional testing be undertaken to strengthen his case as to the need for corrective action.
- D. The CAE should advise senior management of his intention to escalate the matter to the board.

Correct Answer: D

Section:

QUESTION 170

The chief audit executive of an international organization is planning an audit of the treasury function located at the organization's headquarters. The current internal audit team at headquarters lacks expertise in the area of financial markets which is needed for the engagement When of the following would be the most approbate solution considering the time constraint?

- A. Outsource the engagement 10 tie organization's external auditor who has expertise in the area of financial markets
- B. Hire additional internal auditors who have expertise in the area of financial markets.
- C. Invite a guest auditor from one of the organization's affiliates who has expertise m the area of financial markets.
- D. Limit the scope of the engagement to the knowledge and skills possessed by the internal audit team.

Correct Answer: C

Section:

QUESTION 171

Due to emerging new technologies that greatly affect the organization, the chief audit executive (CAE) wants to conduct frequent IT audit and is particularly focused on improving the quality of these engagements. Which of the following is the most viable solution for the CAE to ensure that IT audit quality is immediately enhanced and maintained long-term?

- A. Each year send a different member of the internal audit staff to an IT audit conference to learn about emerging technologies
- B. Contract an external IT special to offer advice and consult on IT audits
- C. Employ an independent external IT specialist to perform IT audits for the first year
- D. Invite qualified staff from the IT department to serve as guest auditors and lead IT audits

Correct Answer: B

Section:

QUESTION 172

Which of the following statement is consistent with IIA guidance the use of mentoring for internal auditors?

- A. The member and the internal auditor should opt for informal meetings even if it means that no formal documentation will be created.
- B. The mentor relationship is usually not suitable for internal audit staff, as it does not leas to professional development.

- C. The value of mentoring is derived primarily from the personal relationship between the two parties involved, and the mentor's level of relevant experience should not be a key factor.
- D. The mentor should be the internal auditor's supervisor to ensure that the auditor performance is assessed in a relevant and meaningful context.

Correct Answer: D

Section:

QUESTION 173

An internal audit team was conducting an assurance engagement to review segregation of duties in the purchasing function. The internal auditors reviewed a sample of purchase orders from the past two year and discovered that 2 percent were signed by employees who were operating in a designated acting capacity due to employee absence. According to IIA guidance, which of the following attributes of information would most likely assist the auditor in deciding whether to report this finding?

- A. Sufficiency
- B. Reliability
- C. Relevance
- D. Usefulness

Correct Answer: D

Section:

QUESTION 174

Which of the following statements accurately describes the Standards requirement for ret internal audit records?

- A. Retention requirements for internal audit records should be compliant with ones set for external audit records
- B. Retention requirements should take into account the medium in which internal audit records are stored
- C. Retention requirements should be set by the chief audit executive and aligned will the organization s process and procedures
- D. Retention requirements should set a minimum period of the for records storage and the process of archiving documents

Correct Answer: C

Section:

QUESTION 175

A chief audit executive's report to the board showed a significant trend of recent aud4s going over planned budgeted hours. Which of the following factors could cause this trend?

- A. Poor engagement supervision
- B. ineffective board reporting
- C. Untimely observation follows up and closure
- D. Limited staff resources

Correct Answer: A

Section:

QUESTION 176

'Internal policy prohibits employees from entering into contacts with financial obligations without proper approval.

A project manager signed a change to an important service agreement without obtaining the proper approval As a result the organization is receiving \$5,000 per month less for its services." Which of the following should be added to the observation?

- A. The reason for not following the internal policy

- B. A description of what constitutes proper approval
- C. The annual impact of the changed agreement on cash flows
- D. Details regarding when the change to the agreement was signed

Correct Answer: B

Section:

QUESTION 177

As part of internal audit's assistance with an annual external audit, the internal auditors are required to do a preliminary analytical review of an bank account balances. This involves verifying the current year end balances as web as comparing the current year end balances with previous year end balances to highlight significant changes. Which of the following is the most reliable source for verification of the current year end bank balances?

- A. Bank confirmations
- B. Internal bank statements
- C. Bank reconciliations as of the end of the year
- D. Bank account general ledger balancer as of the end of the year

Correct Answer: A

Section:

QUESTION 178

An audit observation states the following:

"Despite the rules of the organization there is no approved credit risk management policy in the subsidiary. The subsidiary is concluding contacts with clients who have very high credit ratings. The internal audit team tested 50 contacts and 17 showed clients with a poor credit history" Which of the following components are missing in the observation?

- A. Cause and effect.
- B. Effect and criteria
- C. Condition and cause
- D. Criteria and condition.

The logo for Vdumps.com, featuring a stylized orange 'V' followed by the word 'dumps' in a grey, lowercase, sans-serif font.

Correct Answer: B

Section:

QUESTION 179

Which of the following constitutes supervisory activity undertaken during the planning phase of an assurance engagement?

- A. Ensuring the process owner with the engagement objectives
- B. Reviewing engagement draft reports
- C. Ensuring workpapers support audit findings
- D. Approving audit work programs

Correct Answer: C

Section:

QUESTION 180

White planning an audit engagement of a procurement card activity. which of the following actions should an internal auditor take to denary relevant risks and controls?

- A. Compare card transaction types against procurement card policy guidelines.

- B. Develop the scope and objectives of the engagement
- C. Determine how many cardholders exceeded their daily limit.
- D. Meet with the procurement card program administrator

Correct Answer: D

Section:

QUESTION 181

A chief audit executive (CAE) determined that management chose to accept a high-level risk that may be unacceptable to the organization. Which is the best course of action for the CAE to follow?

- A. Include using in a subsequent audit to determine if the risks are still present
- B. Discuss the matter with senior management and it not reserved with the board
- C. Require that management implement controls to mitigate the risks
- D. Report the risks to the process owners so that they can modify their process

Correct Answer: B

Section:

QUESTION 182

Which of the following best exemplifies having effective risk management and internal control processes?

- A. Relevant risk indicators and mitigation plans are in place
- B. All risks are identified and assessed
- C. Business profitability is likely to be achieved
- D. Risk information is communicated to customers and suppliers



Correct Answer: C

Section:

QUESTION 183

Which of the following best describes external benchmarking using trend analysis for a subsidiary of an international company?

- A. Comparing the current ratio of the subsidiary with the current ratio of another company for the same period
- B. Comparing common-size financial statements of the subsidiary with the averages of the industry for the last two periods
- C. Comparing the sales of the subsidiary with the sales of another subsidiary for the last two periods.
- D. Comparing the sales of the subsidiary with the budgeted figures for the last two periods

Correct Answer: B

Section:

QUESTION 184

An internal auditor discovered that sales contracts with business clients were not stored in the electronic document management database instead they were scanned and saved in a nonsystematic manner to server folders. Which of the following would be an appropriate consequence for the internal auditor to include in the documented observation?

- A. The document management policy requires business client data to be stored in a specific management database
- B. Sales contracts were stored improperly because the office manager was not trained to use the electronic database and prefers to avoid it
- C. If the organization becomes subject to litigation the agreed pricing terms and conditions of the contracts may be difficult to prove

D. All staff should be appropriately trained and required to follow the organization's established policies and procedures pertaining to document management

Correct Answer: B

Section:

QUESTION 185

The audit committee has asked the chief audit executive (CAE) to conduct an ad hoc forensic investigation of the purchasing department within a month due to the significance and urgency of a recently discovered risk. The internal audit activity currently has no available staff with relevant experience or qualifications. Which of the following is the CAE's best option for fulfilling the internal audit activity's responsibilities in this case?

- A. Outsource the investigation to independent professional consultants
- B. Select certain internal auditors and remove them from their current assignments so that they can begin a forensic investigation course
- C. Recruit additional internal auditors possessing relevant qualification and experience
- D. Decline the engagement at this time

Correct Answer: D

Section:

QUESTION 186

Which of the following statements is true regarding a drawback of using internal control questionnaires (ICQs)?

- A. When internal auditors need to cover many control procedures using ICQs is generally less efficient than conducting observations and inspections
- B. It is generally difficult for internal auditors to compile appropriate ICQs for business activities that are governed by standardized operating procedures
- C. ICQs are inadequate to provide effective assurance on how organizational processes are executed in practice.
- D. It is generally difficult for internal auditors to process completed questionnaires, because ICQs frequently elicit detailed comments and long answers from management

Correct Answer: C

Section:

QUESTION 187

While conducting a review of the logistics department the internal audit team identified a crucial control weakness. The chief audit executive (CAE) decided to prepare an audit memorandum for management of the logistics department followed by an informal meeting. What is the most likely reason the CAE decided to prepare the audit memorandum?

- A. To report up-to-date audit progress to management
- B. To ensure that the internal audit team and the CAE are aligned with regard to the identified weakness
- C. To allow management to address the identified weakness timely
- D. To obtain management's agreement with regard to the identified weakness

Correct Answer: C

Section:

QUESTION 188

The audit manager asked the internal auditor to perform additional testing because several irregularities were found in the financial information. Which of the following would be the most appropriate analytical review for the auditor to perform?

- A. Compare the firm's financial performance with organizations in the same industry
- B. Interview all managers involved in preparing the financial statements
- C. Perform a bank reconciliation to confirm the cash balance in the financial statements.

D. Trace each financial transaction to the original supporting document

Correct Answer: A

Section:

QUESTION 189

Management requested internal audit consulting services. During fieldwork significant control issues were identified by the internal audit team. Which of the following is an appropriate response from the chief audit executive?

- A. End the consulting engagement and report the results to management as planned
- B. Report the significant control issues to senior management and the board and recommend corrective action
- C. Mutually agree with the engagement client on corrective actions
- D. Focus on the consulting engagement and schedule an assurance engagement next to address the control issues

Correct Answer: C

Section:

QUESTION 190

The internal auditor and her supervisor are in dispute about a risk that was not tested during an audit of the procurement function. Which of the following tools would best support the auditor's decision not to test the risk?

- A. A spaghetti map
- B. A heat map.
- C. A process map
- D. An assurance map

Correct Answer: B

Section:

QUESTION 191

Which of the following factors would be the most critical in determining which engagements should be included in the annual internal audit plan?

- A. Whether an audit is explicitly required by the internal audit charter
- B. The extent to which the work to be performed is an assurance or consulting engagement
- C. The organization's annual risk management strategy
- D. Risks that are identified by operations staff or senior management

Correct Answer: A

Section:

QUESTION 192

According to IIA guidance which of the following statements is true regarding the annual audit plan?

- A. The annual audit plan should only be adjusted in response to problems with resourcing, scope, and data availability.
- B. The chief audit executive (CAE) may incorporate risk information, including risk appetite levels from management for the audit plan at her discretion.
- C. In an immature risk management environment it is preferable for the CAE to rely solely on her judgment regarding risk identification and assessment to develop the audit plan.
- D. The CAE may make adjustments to the annual audit plan as needed without senior management or board approval.



Correct Answer: B

Section:

QUESTION 193

Which of the following sources of testimonial evidence would be considered the most reliable regarding whether a process is effectively performed according to its design?

- A. The person responsible for performing the task
- B. Two or more people that work in the area
- C. The supervisor in charge of the process
- D. The manager that wrote the steps to be followed

Correct Answer: B

Section:

QUESTION 194

Which of the following internal control attributes should internal auditors consider testing during a review of the board of directors?

- A. The presence of an independent critical mass
- B. The established philosophy and operating style of senior management
- C. The articulated internal control objectives of the organization
- D. The organization's employee recruiting and retention policies

Correct Answer: C

Section:

QUESTION 195

The following is a list of major findings in the executive summary report for an audit of the contract management process

- Noncompliance with contract provisions requiring vendors to obtain insurance policies with indemnity value of not less than \$1 million
- Compliance with contract obligations and deliverables is not monitored
- No contract agreement with five vendors providing core services

Which of the following is an appropriate conclusion that can be drawn from these findings?

- A. These are weaknesses resulting from a lack of a documented contracting policy
- B. Substandard service delivery by vendors may not be detected
- C. Management should expedite actions to rectify the observations identified
- D. The internal controls guiding contract management are not operating effectively

Correct Answer: B

Section:

QUESTION 196

Considering the five-attribute approach to documenting deficiencies in an area under review which of the following answers the question. "What should be in place?"

- A. Action plan
- B. Recommendation
- C. Condition
- D. Criteria



Correct Answer: D

Section:

QUESTION 197

An internal auditor is examining the organization's internal control processes. Which of the following would the auditor do to test the reliability of a customer database?

- A. Perform a site visit to see whether the organization's servers are operational
- B. Interview end users to determine whether they understand how to use the database information
- C. Determine whether policies are in place on how to use the database information
- D. Review for indications of potential issues with the database information

Correct Answer: D

Section:

QUESTION 198

Which of the following is the most appropriate approach for the internal audit activity to follow up on management action plans?

- A. Create a tracking system for follow up
- B. Ensure that follow-up activities are performed at least weekly.
- C. Delegate follow-up activities to qualified administrative staff within the business unit
- D. Ensure that follow-up activities are performed by the most senior auditor on staff

Correct Answer: A

Section:

QUESTION 199

The board of directors expressed concerns about potential external risks that could impact the organization's ability to meet its annual objectives and goals. The board requested consulting services from the internal audit activity to gain insight regarding the external risks. Which of the following engagement objectives would be appropriate to fulfill this request?

- A. Assess the organization's ability to minimize potential external risks
- B. Assess the organization's process of vetting vendors that provide necessary services to the organization
- C. Assess the organization's risk impacts from the markets in which it operates
- D. Assess the organization's controls implemented that would help minimize risks

Correct Answer: B

Section:

QUESTION 200

Which of the following is the primary purpose of implementing a program whereby employees are rotated from other parts of the organization into the internal audit activity?

- A. It provides the internal audit activity with more resourcing options to meet the audit plan
- B. It offers internal auditors the opportunity to learn more about other work areas.
- C. It gives nonauditors a better understanding of the control environment.
- D. It provides an opportunity for the recruitment of employees as permanent internal auditors

Correct Answer: B

Section:



QUESTION 201

During a review of data privacy an internal auditor is tasked with testing management's identification and prioritization of critical data collected by the organization. Which of the following steps would accomplish this objective?

- A. interview management to determine what types of data are collected and maintained
- B. Trace data from storage to the collection sources to determine how critical data is collected and organized
- C. Review a sample of data to determine whether the risk classification is reasonable
- D. Document and test a data inventory and classification program by determining the data classification levels and framework

Correct Answer: B

Section:

QUESTION 202

An internal auditor develops an engagement observation related to an organization's accumulation of large travel advances. The auditor observes that the organization's procedures do not require justification for travel advances greater than a specific amount Which of the following best describes the organization's procedures?

- A. A criterion of the organization's accumulation of large travel advances
- B. A condition of the organization's accumulation of large travel advances
- C. A consequence of the organization's accumulation of large travel advances
- D. A cause of the organization's accumulation of large travel advances

Correct Answer: D

Section:

QUESTION 203

An organization is experiencing a significant risk that threatens its financial well-being Senior management requested that the chief audit executive (CAE) meet with them to discuss the risk. Which of the following would best describe the CAE's responsibility at the meeting?

- A. Inform senior management of the appropriate actions they should take to control the risk
- B. Recommend that the internal audit activity provide consulting services to help minimize the risk
- C. Assume the responsibility of resolving the significant risk that will affect the organization
- D. Determine whether senior management accepted risk that may be deemed unacceptable for the organization

Correct Answer: D

Section:

QUESTION 204

The internal audit activity has become aware of public complaints regarding the sales practices of telephone marketing personnel in a large organization. The internal auditors decide to review a sample of all complaints within the last three months to ensure they are reflective of current marketing practices. Which of the following best describes this sampling technique?

- A. Judgmental sampling
- B. Random sampling
- C. Discovery sampling
- D. Statistical sampling

Correct Answer: B

Section:



QUESTION 205

An organization recently acquired a subsidiary in a new industry, and management asked the chief audit executive (CAE) to perform a comprehensive audit of the subsidiary prior to recommending operations. The CAE is unsure her team has the necessary skills and knowledge to accept the engagement. According to IIA guidance, which of the following responses by the CAE would be most appropriate?

- A. The CAE should accept the engagement and ensure that an of the expertise limitations is included in the final audit report.
- B. The CAE should ask management to hire an external expert who is familiar with the industry to perform an independent audit for management.
- C. The CAE should accept the engagement and hire an external expert to assist the audit team with the audit of the subsidiary.
- D. The CAE should recommend postponing the engagement until the internal audit team is able to develop sufficient knowledge of the new industry.

Correct Answer: C

Section:

QUESTION 206

When estimating the impact of an inherent risk, which of the following should internal auditors consider?

- A. The probability and frequency of occurrence
- B. Financial and nonfinancial factors related to the risk
- C. The number of risks identified on the heat map
- D. The residual risk following implementation of appropriate controls

Correct Answer: A

Section:

QUESTION 207

An internal auditor is asked to perform an assurance engagement in the organization's newly acquired subsidiary. When developing the objectives for the engagement, which of the following statements describes the most important items that the auditor needs to consider?

- A. Previous performance of the subsidiary specifically its financial results over the last three years and the outcome of external audit reviews
- B. The results of previous internal audits of the subsidiary, the recommendations provided, and whether the recommended actions have been implemented
- C. Organizational strategy, objectives, risks, control framework, and the expectations of stakeholders regarding the audit
- D. The qualifications and competencies of the subsidiary's management team and their understanding of risk and control

Correct Answer: D

Section:

QUESTION 208

An engagement supervisor reviewed a staff internal auditor's documentation and noted that several edits should be made. The internal audit activity uses an electronic workpaper database and does not maintain paper files for its system of record. A system error prevents the engagement supervisor from adding her electronic signature to any workpaper in the database. Given this situation, which is the most appropriate response to provide evidence of supervisory review?

- A. The engagement supervisor should print, sign, and date each workpaper after the review is complete and scan the document into the database as evidence of review.
- B. Because the engagement supervisor called the help desk to correct the IT problem, he should upload the support-request ticket from the help desk to serve as evidence of the review.
- C. The engagement supervisor should ask another manager-level internal auditor not associated with the project to sign the workpaper on his behalf.
- D. The engagement supervisor should instruct the staff internal auditor to add a note in the workpaper on his behalf indicating that the workpaper was reviewed and feedback was provided.

Correct Answer: A

Section:

QUESTION 209

Which of the following recommendation types is most likely to propose the most long-term solutions?

- A. Condition-based recommendations
- B. Cause-based recommendations
- C. Effect-based recommendations
- D. Root cause-based recommendations

Correct Answer: D

Section:

QUESTION 210

In order to obtain background information on an assigned audit of data center operations an internal auditor administers control questionnaires to select individuals who have primary responsibilities within the process. Which of the following is a drawback of this approach?

- A. It will be difficult to quantify the information obtained through this approach
- B. This approach does not help the auditor learn about the existence of controls
- C. It takes the auditor a long time to assess the relevant controls using this approach
- D. Information on control functionality is limited

Correct Answer: A

Section:

QUESTION 211

Which of the following best describes the manual audit procedure known as vouching?

- A. Testing the validity of information by following it backward to a previously prepared record
- B. Testing the accuracy of the control by reperforming the task or process required
- C. Soliciting and obtaining written verification of the accuracy from an independent third party
- D. Testing the completeness of information forward from a record to a subsequently prepared document

Correct Answer: D

Section:

QUESTION 212

Which of the following audit steps would an internal auditor perform when reviewing cash disbursements to satisfy IIA guidance on due professional care?

- A. The calculated statistical sample size is 50 however the internal auditor believes errors exist so he decides to increase the sample size to 80
- B. The internal auditor traces serial numbers of computer equipment listed on an invoice to the fixed asset inventory
- C. The internal auditor reviews the accounts payable manager's petty cash fund and vouchers
- D. The internal auditor reviews the related invoice purchase order and receiving report for each sample selection

Correct Answer: D

Section:

QUESTION 213

Which of the following describes the primary objective of an internal audit engagement supervisor?



- A. Uphold the quality of the internal audit actively
- B. Provide engagement progress updates to management of the area under review
- C. Assure risks and controls are identified and assessed
- D. Ensure timely completion of the engagement

Correct Answer: C

Section:

QUESTION 214

An internal auditor is planning to audit the organization's payroll function, which was recently outsourced. Which of the following is the most appropriate first step for the auditor?

- A. Review management's organ nationwide risk assessment
- B. Understand the objectives and strategies of the new arrangement
- C. Revise the scope of the audit engagement
- D. Form objectives for the audit engagement

Correct Answer: A

Section:

QUESTION 215

According to HA guidance on IT, which of the following actions would be performed as part of the "Define IT Universe" stage of the IT audit plan development process?

- A. Identify significant applications that support the business operations
- B. Assess risk and rank subjects using business risk factors
- C. Identify how the organization structures its business operations
- D. Select audit subjects and bundle into distinct audit engagements



Correct Answer: A

Section:

QUESTION 216

What is the best course of action for a chief audit executive if an internal auditor identifies in the early stage of an audit that some employees have inappropriate access to a key system?

- A. Contact the audit committee chair to discuss the finding
- B. Obtain verbal assurance from management that the inappropriate access will be removed
- C. Issue an interim audit report so that management can implement action plans
- D. Ask the auditor to create a ticket with the IT help desk requesting to revoke the inappropriate access

Correct Answer: A

Section:

QUESTION 217

Upon concluding the engagement fieldwork an internal auditor discusses the audit findings with operational management There is a greater likelihood that the auditor will obtain a responsive action plan from management when both parties agree on which of the following attributes of the audit finding?

- A. Criteria

- B. Condition
- C. Cause
- D. Effect

Correct Answer: D

Section:

QUESTION 218

The chief audit executive (CAE) determined that the internal audit activity lacks the resources needed to complete the internal audit plan. Which of the following would be the most appropriate action for the CAE to take?

- A. Use guest auditors from within the organization, and leverage their experience by assigning them to lead engagements in areas where they previously worked
- B. Outsource some of the audits to the organization's external auditor who is already familiar with the organization
- C. Invite nonauditors to join the internal audit activity for a two-year rotational position, and assign them to join audit teams that are reviewing areas where they have no previous management responsibility
- D. Recruit recent college graduates and employ them as audit interns with an aim to offer permanent employment

Correct Answer: C

Section:

QUESTION 219

What is the primary objective of an engagement supervisor's review of key activities performed during the engagement?

- A. To ensure that the engagement is completed on time and within budget
- B. To ensure that all work performed meets acceptable quality standards
- C. To ensure that management has provided suitable responses to all observations
- D. To ensure that management is satisfied with the progress of the engagement



Correct Answer: A

Section:

QUESTION 220

Which informal information-gathering method would be most efficient for an internal auditor to determine whether specified control procedures are in place?

- A. Interviews
- B. Observations
- C. Reperformance
- D. Internal control questionnaires

Correct Answer: D

Section:

QUESTION 221

Which of the following would be the most helpful to a chief audit executive when developing a talent management strategy?

- A. Gap analysis
- B. Staff preferences
- C. Maturity analysis
- D. Extent of external audit coverage

Correct Answer: A
Section:

