



IIA-CIA-PART1 Q&As

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

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Vendor: IIA

Exam Code: IIA-CIA-Part1

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

Q&As: Demo

QUESTION 1

Which of the following would not be a factor for senior management to consider when determining the internal audit activity's role in an organization's risk management process?

- A. The extent to which the internal audit activity is outsourced.
- B. The maturity level of risk management practices in the organization.
- C. The competency of the internal auditors in risk management.
- D. The nature of the business and the environment in which the organization operates.

Correct Answer: A

QUESTION 2

Which of the following best describes the underlying premise of the COSO enterprise risk management framework?

- A. Management should set objectives before assessing risk.
- B. Every entity exists to provide value for its stakeholders.
- C. Policies are established to ensure that risk responses are performed effectively.
- D. Enterprise risk management can minimize the impact and likelihood of unanticipated events.

Correct Answer: B

QUESTION 3

An internal auditor is assigned to conduct an audit of security for a local area network (LAN) in the finance department of the organization. Investment decisions, including the use of hedging strategies and financial derivatives, use data and financial models which run on the LAN. The LAN is also used to download data from the mainframe to assist in decisions. Which of the following should be considered outside the scope of this security audit engagement?

- A. Investigation of the physical security over access to the components of the LAN.
- B. The ability of the LAN application to identify data items at the field or record level and implement user access security at that level.
- C. Interviews with users to determine their assessment of the level of security in the system and the vulnerability of the system to compromise.
- D. The level of security of other LANs in the company which also utilize sensitive data.

Correct Answer: D

QUESTION 4

When internal auditors perform consulting services that add value and improve an organization's operations, these services:

- A. Impair the internal auditors' objectivity with respect to an assurance service involving the same engagement client.
- B. Would preclude the achievement of assurance from the consulting engagement.
- C. Should be consistent with the internal audit activity's empowerment reflected in the charter.
- D. Impose no responsibility to communicate information other than to the engagement client.

Correct Answer: C

QUESTION 5

A manufacturing firm uses hazardous materials in the production of its products. An audit of the firm's processes related to hazardous materials should include.

- I. Recommending an environmental management system as part of policies and procedures.
- II. Verifying the existence of tracking records for these materials from creation to destruction.
- III. Using consultants to avoid self-incrimination of the firm in the event illegalities were detected in an

environmental audit.

IV. Evaluating the cost provided for in an environmental liability accrual account.

- A. II only
- B. III and IV only
- C. I, II, and IV only
- D. I, III, and IV only

Correct Answer: C

QUESTION 6

An organization's accounts payable function improved its internal controls significantly after it received an unsatisfactory audit report.

When planning a follow-up audit of the function, what level of detection risk should be expected if the audit and sampling procedures used are unchanged from the prior audit?

- A. Detection risk is lower because control risk is lower.
- B. Detection risk is lower because control risk is higher.
- C. Detection risk is higher because control risk is lower.
- D. Detection risk is unchanged although control risk is lower.

Correct Answer: D

QUESTION 7

Which of the following risk assessment tools would best facilitate the matching of controls to risks?

- A. Control matrix.
- B. Internal control questionnaire.
- C. Control flowchart.
- D. Program evaluation and review technique (PERT) analysis.

Correct Answer: A

QUESTION 8

Which of the following is an example of sharing risk?

- A. An organization redesigned a business process to change the risk pattern.
- B. An organization outsourced a portion of its services to a third-party service provider.
- C. An organization sold an unprofitable business unit to its competitor.
- D. In order to spread total risk, an organization used multiple vendors for critical materials.

Correct Answer: B

QUESTION 9

Which of the following components influences the risk consciousness of an organization's people and is the basis for all other components of enterprise risk management?

- A. Objective setting.
- B. Information and Communication.
- C. Risk Assessment.
- D. Internal Environment.

Correct Answer: D

QUESTION 10

Which of the following is an appropriate consideration by the auditor when preparing an engagement program for a human resource audit?

- A. State the work steps in the form of questions.
- B. Use standard audit program for HR from previous years.
- C. Include in the audit program certain audit tests requested by audit client.
- D. Defer preparation of the audit program after the field work.

Correct Answer: C

QUESTION 11

Which of the following would be a violation of the IIA Code of Ethics?

- A. Reporting information that could be damaging to the organization, at the request of a court of law.
- B. Including an issue in the final audit report after management has resolved the issue.
- C. Participating in an audit engagement for which the auditor does not have the necessary experience or training.
- D. Accepting a gift that is a commercial advertisement available to the public.

Correct Answer: C

QUESTION 12

During a payroll audit of a large organization, an auditor noted that the assistant personnel director is responsible for many aspects of the computerized payroll system, including adding new employees in the system; entering direct-deposit information for employees; approving and entering all payroll changes; and providing training for system users. After discussions with the director of personnel, the auditor concluded that the director was not comfortable dealing with information technology issues and felt obliged to support all actions taken by the assistant director. The auditor should:

- A. Continue to follow the engagement program because the engagement scope and objectives have already been discussed with management.
- B. Review the engagement program to ensure testing of direct deposits to employee bank accounts is adequately covered.
- C. Recommend to the chief audit executive that a fraud investigation be started.
- D. Test a sample of payroll changes to ensure that they were approved by the assistant director before being processed.

Correct Answer: B

QUESTION 13

The chief audit executive should periodically report the internal audit activity's purpose, authority, responsibility, and performance, as well as significant risk exposures and control issues, to which of the following?

- I. Board of directors.
- II. Senior management.
- III. Shareholders.
- IV. External auditors.

- A. II only
- B. I and II only
- C. I, II, and III only
- D. I, III, and IV only

Correct Answer: B

QUESTION 14

An audit to test the system of controls over the purchase, distribution, and use of radioactive material is being conducted at a company's plants. The process is well documented, and employees in the safety department are very familiar with the department's procedures. Since the purchasing and facilities departments are involved in the process, the auditor is considering reviewing their radioactive material-

handling procedures as well. The auditor should:

- A. Have confidence in the rigorous and detailed safety department procedures, since that department has the main responsibility for radiation safety, and should not use audit time to review other departments.
- B. Adjust the engagement schedule and budget, if needed, and interview the appropriate individuals in the purchasing and facilities departments to ascertain whether additional controls exist that complement those identified within the safety department.
- C. Test the controls identified within the safety department; if results are unfavorable, the auditor should consider whether to involve the other departments.
- D. Defer questions regarding purchasing, facilities, and other departments until audit projects can be scheduled for those departments.

Correct Answer: B

QUESTION 15

If an engagement client's operating standards are vague and thus subject to interpretation, the auditor should:

- A. Seek agreement with the client as to the standards to be used to measure operating performance.
- B. Determine best practices in the area and use them as the standard.
- C. Interpret the standards in their strictest sense because standards are otherwise only minimum measures of acceptance.
- D. Omit any comments on standards and the client's performance in relationship to those standards, because such an analysis would be meaningless.

Correct Answer: A

QUESTION 16

An employee who recently transferred into the internal audit activity has been assigned to audit the accounts payable system.

Which function, if previously performed by the auditor, would represent a conflict of interest?

- A. Monitoring the allowance for doubtful accounts.
- B. Writing procedures for the handling of duplicate payments.
- C. Signing timekeeping cards for subordinates.
- D. Reviewing shipping documents for accuracy.

Correct Answer: B

QUESTION 17

Which of the following describes a control weakness?

- A. Purchasing procedures are well designed and are followed unless otherwise directed by the purchasing supervisor.
- B. Pre-numbered blank purchase orders are secured within the purchasing department.
- C. Normal operational purchases fall in the range from \$500 to \$1, 000 with two signatures required for purchases over \$1, 000.
- D. The purchasing agent invests in a publicly traded mutual fund that lists the stock of one of the company's suppliers in its portfolio.

Correct Answer: A

QUESTION 18

Management has requested that an internal auditor serve as member of a task force that will review current receivables practices and make recommendations to improve processes. Which of the following is the most appropriate response by the internal auditor?

- A. Accept the assignment provided that such consulting services are defined in the charter.

- B. Decline the assignment because participation on task forces will impair the auditor's objectivity in future audit engagements.
- C. Accept the assignment if the auditor believes that it will not impair objectivity in future audit engagements.
- D. Do not accept the assignment because the assignment is not part of an approved audit plan.

Correct Answer: A

QUESTION 19

Senior management at a financial institution has received allegations of fraud at its derivatives trading desk and has asked the internal audit activity to investigate and issue a report concerning the allegations. The internal audit activity has not yet developed sufficient proficiency regarding derivatives trading to conduct a thorough fraud investigation in this area. Which of the following courses of action should the chief audit executive (CAE) take to comply with the Standards?

- A. Engage the former head of the institution's derivatives trading desk to perform the investigation and submit a report with supporting documentation to the CAE.
- B. Request that senior management allow a delay of the fraud investigation until the internal audit activity's on-staff certified fraud examiner is able to obtain the appropriate training regarding the analysis of derivatives trading.
- C. Request that senior management exclude the internal audit activity from the investigation completely and instead contract with an external certified fraud examiner with derivatives experience to perform all aspects of the investigation and subsequent reporting.
- D. Contract with an external certified fraud examiner with derivatives experience to perform the investigation and subsequent reporting, with the chief audit executive approving the scope of the investigation and evaluating the adequacy of the work performed.

Correct Answer: D

QUESTION 20

Which of the following corporate travel policies is least likely to be cost-effective?

- A. Negotiating corporate agreements with hotels, airlines, and car rental firms.
- B. Tracking credits for canceled airline reservations.
- C. Selecting the least expensive airline travel available, without regard to total travel time and distance.
- D. Traveling to facilities in tourist areas during the off-season when possible.

Correct Answer: C

QUESTION 21

Which of the following characteristics could indicate high risk?

- A. Management decisions are made by a committee of mid to higher level management personnel.
- B. The company is not in a rapidly growing industry.
- C. The company's profitability is lower than the industry norm.
- D. Management turnover has been very low.

Correct Answer: C

QUESTION 22

An auditor is using audit software to check inventory accuracy. Which of the following would be an indicator of poor input edit controls?

- A. Negative quantities on hand.
- B. Total dollar values of zero for some parts.
- C. Alpha characters in the field for order lead time.
- D. Reorder levels set too high.

Correct Answer: C

QUESTION 23

Two individuals are being considered for an audit team that is to perform a highly technical review.

Which of the following situations would preclude selection of the individual for the audit due to an objectivity concern?

- I. Person A is a member of the internal audit staff and has the required technical skills. Person A participated in a controls review of the system to be audited when it was being developed.
- II. Person B is a technical specialist who understands the audit area but is not a member of the internal audit staff. Although person B has personal credibility in the information systems department to be audited, person B works for another department in the organization.

- A. I only
- B. II only
- C. Both I and II.
- D. Neither I nor II.

Correct Answer: D

QUESTION 24

Which of the following measurements could an auditor use in an audit of the efficiency of a motor vehicle inspection facility?

- A. The total number of cars approved.
- B. The ratio of cars rejected to total cars inspected.
- C. The number of cars inspected per inspection agent.
- D. The average amount of fees collected per cashier.

Correct Answer: C

QUESTION 25

A code of business conduct provides?

- A. A fraud avoidance plan that does not explicitly describe punishments for violations.
- B. A passive method of fraud deterrence.
- C. A program to anonymously report irregularities to authorities.
- D. An alternative to "tone at the top" programs.

Correct Answer: B

QUESTION 26

Fraud is most frequently detected by:

- A. Following up on tips from employees or citizens.
- B. Following up on analytical review of high-risk areas.
- C. Performing periodic reconciliations over cash and other assets.
- D. Performing unannounced audits or reviews of programs or departments.

Correct Answer: A

QUESTION 27

After several years in the engineering department, an engineer was transferred to the internal audit department. One month later, the new auditor was assigned to an assurance engagement for the engineering department. When the auditor's former engineering supervisor suggested a change in the sample selection method, the auditor consulted with the audit supervisor. They determined that the suggested method would not be as representative and that the original selection method should be used. In this situation, the auditor:

- A. Maintained an independent mental attitude and is therefore objective.
- B. Has subordinated professional judgment, and objectivity is therefore impaired.
- C. Does not have objectivity since the auditor recently transferred from the engineering department.
- D. Does not have independent organizational status since the auditor recently transferred from the engineering department.

Correct Answer: C

QUESTION 28

A charitable organization provides substantial grants for important medical research. Assuming marginal controls are in place, which of the following possible frauds or misuses of organization assets should be considered the area of greatest risk?

- A. Senior executives are using company travel and entertainment funds for activities that might be considered questionable.
- B. Purchases of office supplies are made from fictitious vendors.
- C. Grants are made to organizations associated with senior executives.
- D. A payroll clerk has added a fictitious employee.

Correct Answer: C

QUESTION 29

If earnings on financial statements for internal use only have been manipulated in the past, an internal auditor is likely to focus on which of the following?

- A. The proper accrual of payables at the end of the interim period.
- B. The timing of revenue recognition and the valuation of inventories.
- C. Whether accounting estimates are reasonable given past actual results.
- D. Whether there have been changes in accounting principles that materially affect the financial statements.

Correct Answer: B

QUESTION 30

Which of the following procedures would provide the best evidence of the effectiveness of a credit-granting function?

- A. Observe the process.
- B. Review the trend in receivables write-offs.
- C. Ask the credit manager about the effectiveness of the function.
- D. Check for evidence of credit approval on a sample of customer orders.

Correct Answer: B

QUESTION 31

Which of the following best describes how the increased use of computerization may impact an auditor's assessment of the risk of fraud?

- A. Access to assets may be available to information systems personnel as well as to computer users.
- B. Computer controls are generally less effective than human review.
- C. Overrides of key controls may require less collaboration.
- D. Audit trails are less effective.

Correct Answer: A

QUESTION 32

An internal auditor plans to use an analytical review to verify the correctness of various operating

expenses in a division. The use of an analytical review as a verification technique would not be a preferred approach if.

- A. The auditor notes strong indicators of a specific fraud involving this account.
- B. The company has relatively stable operations which have not changed much over the past year.
- C. The auditor would like to identify large, unusual, or non-recurring transactions during the year.
- D. The operating expenses vary in relation to other operating expenses, but not in relation to revenue.

Correct Answer: A

QUESTION 33

Which of the following is not a benefit of using information technology in solving audit problems?

- A. It helps reduce audit risk.
- B. It improves the timeliness of the audit engagement.
- C. It increases audit opportunities.
- D. It improves the auditor's judgment.

Correct Answer: D

QUESTION 34

An organization has developed a large database that tracks employees, employee benefits, payroll deductions, job classifications, and other similar information. In order to test whether data currently within the automated system are correct, an auditor should:

- A. Use test data and determine whether all the data entered are captured correctly in the updated database.
- B. Select a sample of data to be entered for a few days and trace the data to the updated database to determine the correctness of the updates.
- C. Use generalized audit software to provide a printout of all employees with invalid job descriptions. Investigate the causes of the problems.
- D. Use generalized audit software to select a sample of employees from the database. Verify the data fields.

Correct Answer: D

QUESTION 35

In order to ensure that the internal auditors have the objectivity required by the Standards, the chief audit executive should:

- A. Demonstrate willingness to include in engagement final communications all matters believed to be important.
- B. Require all auditors to sign statements attesting to their independent mental attitudes and honest belief in their work product.
- C. Carefully assign personnel to individual audit engagements and require auditors to disclose all conflicts of interest.
- D. Appraise each auditor's performance on each audit assignment.

Correct Answer: C

QUESTION 36

Which of the following would be the best source of information for a chief audit executive to use in planning future audit staff requirements?

- A. Discussions of audit needs with executive management and the audit committee.
- B. Review of audit staff education and training records.
- C. Review of audit staff size and composition of similar-sized companies in the same industry.
- D. Interviews with existing audit staff.

Correct Answer: A

QUESTION 37

An auditor for a large wholesaler is evaluating the controls over the approval and oversight of credit sales. Which of the following procedures would be a control weakness?

- A. The credit department is responsible for approving shipments to all customers.
- B. The finance committee of the board of directors periodically reviews credit standards.
- C. Customers who fail to meet credit requirements must pay cash for shipments upon delivery.
- D. The sales department is responsible for determining the credit ratings of customers.

Correct Answer: D

QUESTION 38

To determine if a new computer system is improving the use of a manufacturer's limited facilities in serving the largest number of customers, an auditor should compare.

- A. The number of reworked orders and their costs before and after system installation.
- B. Inventory and materials handling costs before and after system installation.
- C. The number of orders filled and their cycle times before and after system installation.
- D. The number of reworked orders and orders filled before and after system installation.

Correct Answer: C

QUESTION 39

In a manufacturing organization, all sales prices are determined centrally and are electronically sent to the distribution centers to update their sales price tables. Any pricing deviations must be approved by central headquarters. To determine how this process is functioning, an internal auditor should:

- A. Document the flow of sales price information, and determine how the table is accessed and updated.
- B. Develop a flowchart of the sales order process to determine how orders are taken and priced.
- C. Identify who approves the shipment of goods and how the goods are priced.
- D. Obtain a copy of the existing flowchart for the computer program to determine how price data are accessed.

Correct Answer: A

QUESTION 40

Which of the following, other than the internal audit charter, is most likely to define the purpose, authority, and responsibility of the internal audit activity (IAA)?

- A. The chief audit executive job description.
- B. The internal audit policy statement.
- C. The organization's charter to conduct operations.
- D. The IAA vision statement.

Correct Answer: B

QUESTION 41

According to the IIA Code of Ethics, the deliberate omission of relevant information from an audit report would violate which principle?

- A. Honesty.
- B. Competency.
- C. Responsibility.
- D. Integrity.

Correct Answer: D

QUESTION 42

A chief audit executive (CAE) submits internal audit activity (IAA) plans and information about significant interim changes to senior management and the board for review. Which other piece of information should the CAE provide to senior management and the board?

- A. Identification of proposed consultants and support staff for the IAA.
- B. The most recent engagement of each member of the audit staff and its duration.
- C. The CAE's preferred statistical analysis methods and relevant software to be utilized.
- D. Resource requirements and resource limitations.

Correct Answer: D

QUESTION 43

The chief audit executive is revising policies relating to independence and objectivity of the internal audit activity. Which of the following would be a part of the revised policies document?

- A. Any auditor that received high-value gifts from an audit client must report it to their supervisor.
- B. Any auditor that received gifts of low-value promotional items from an audit client must report it to their supervisor.
- C. An auditor does not need to complete an annual conflict of interest form unless the auditor's independence status has changed.
- D. An auditor may provide consulting services relating to operations for which they had previous responsibilities.

Correct Answer: D

QUESTION 44

The chief audit executive (CAE) wants to ensure that there are sufficient resources available to fulfill the responsibilities of the internal audit activity in the coming year. Which statement describes the most logical sequence of events for the CAE to undertake in order to achieve this objective?

- A. Confirm audit plan; confirm budget; review existing resources; identify outstanding resource requirements.
- B. Review prior year audit plan; review existing resources; confirm new audit plan; confirm budget.
- C. Confirm budget; review existing resources; obtain any new resources required; confirm new audit plan.
- D. Review results of prior year audit plan; adjust current plan accordingly; hire required resources; confirm budget.

Correct Answer: A

QUESTION 45

In which of the following circumstances is it apparent that the internal auditor exercised due professional care in carrying out his duties?

1. The internal auditor weighed the cost of the engagement against its potential benefits.
2. The internal auditor used anonymous information from a whistleblower to report the existence of fraudulent activity.
3. The internal auditor found minor and major instances of fraud and highlighted only the major instances in its report, in consideration of the board's limited time.
4. The internal auditor decided to use new auditing software to assist with the statistical analysis required during the engagement.

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

Correct Answer: D

QUESTION 46

Which of the following is not a typical objective of any training plan developed for internal audit activity staff?

- A. Consistency.
- B. Economy.
- C. Quality.
- D. Relevance.

Correct Answer: B

QUESTION 47

According to IIA guidance, which of the following best describes acceptable methods for internal auditors to obtain qualified continuing professional education hours?

- A. Volunteering in relevant professional organizations, formal education, and online training courses.
- B. Volunteering in relevant professional organizations, formal education, and tutoring college students.
- C. Volunteering in relevant professional organizations, on-line training courses, and tutoring college students.
- D. Formal education, on-line training courses, and tutoring college students.

Correct Answer: A

QUESTION 48

According to IIA guidance, which of the following statements is true regarding the reporting of results from a quality assurance and improvement program review of the internal audit activity?

- A. A report on the results of the assessment is issued upon completion, and progress on implementing recommended improvements must be reported monthly.
- B. The results are reported upon completion in confidence directly to the board, and management is advised only of the recommendations and improvement action plans.
- C. The results are shared with the board and management upon completion, and monitoring of recommended improvements must be reported at least annually.
- D. The results are communicated upon completion to the board and management, but action plans for recommended improvements do not have to be reported.

Correct Answer: C

QUESTION 49

Feedback on engagements from audit clients, annual benchmarking of the internal audit activity's (IAA's) performance against best practice, and analyses of project budgets and audit plan completion are all tools that can best be used by the IAA for which purpose?

- A. Completing internal assessments.
- B. Determining the level of residual risk.
- C. Identifying conflicts of interest.
- D. Developing control processes.

Correct Answer: A

QUESTION 50

Which type of control is designed to directly mitigate internal and external risks at the organization wide level, furthering the achievement of many overall organizational objectives?

- A. Process-level control.
- B. Entity-level control.

- C. Transaction-level control.
- D. Complementary control.

Correct Answer: B

QUESTION 51

A small not-for-profit organization with limited resources is unable to adequately maintain appropriate segregation of duties. Considering the organization's resource constraints, which type of controls would best mitigate segregation of duty risks?

- A. Application controls.
- B. Detective controls.
- C. Preventive controls.
- D. Compensating controls.

Correct Answer: D

QUESTION 52

According to the COSO Enterprise Risk Management - Integrated Framework, which of the following statements is true regarding the role of risk appetite in an organization?

- A. Risk appetite reflects the organization's risk philosophy and influences its operating style.
- B. A high risk appetite may limit capital investment in high risk areas.
- C. Risk appetite is determined in part by how an entity allocates its resources.
- D. Risk appetite is often best measured in the same units as its related objective.

Correct Answer: A

QUESTION 53

Which domain of the COBIT framework addresses the maintenance and change management of existing systems to ensure alignment with business needs and objectives?

- A. Plan and organize.
- B. Deliver and support.
- C. Monitor and evaluate.
- D. Acquire and implement.

Correct Answer: D

QUESTION 54

According to IIA guidance, which of the following risk management process evaluation findings would the internal audit activity consider most effective?

- A. Relevant risk information is captured and communicated in a periodic manner to management.
- B. Risk management processes are monitored through an annual assessment.
- C. Risk responses align with the organization's risk appetite.
- D. Strategic risks with low residual values are continuously monitored.

Correct Answer: C

QUESTION 55

An employee is more likely to commit fraud if which of the following red flags are present?

1. The employee believes that he is being underpaid and deserves a higher salary.
2. The employee is close to retirement and has expressed a desire to take an expensive trip around the world.
3. The employee has personal financial problems and seems very unhappy.
4. The employee is spending much more time at the office than usual and has been asking about opportunities for professional advancement.

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

Correct Answer: B

QUESTION 56

A senior manager asks the chief audit executive (CAE) to explain why statistical sampling is the best method to use in conducting an internal audit. Which advantages should the CAE point to in order to justify the internal audit activity's (IAA) use of statistical sampling?

- A. Statistical sampling sets limits on resources used for the IAA, allows for a subjective interpretation of the IAA's sampling results, and supports The Institute of Internal Auditors' requirements for using questionnaires as a sampling tool.
- B. Statistical sampling allows for evaluation of all organizational data at once, increases the likelihood that risks are immediately identified, and does not require a level of tolerable misstatement or margin of error.
- C. Statistical sampling allows for the selection of a minimum sample size, provides a quantitative expression of the IAA's sampling results, and supports extrapolation.
- D. Statistical sampling itself identifies root causes of issues, utilizes a qualitative method for analyzing results, and supports engagement objectives through the use of external benchmarking.

Correct Answer: C

QUESTION 57

An internal auditor obtains spreadsheets created by the finance department of an organization. The internal auditor contacts a third party about the source data that was utilized to create the spreadsheets before going on to perform a ratio analysis and a comparison of budget versus actual data. What is the most likely reason that the internal auditor involved a third party before performing further analysis?

- A. To determine if a later re-performance for testing mechanical accuracy would be possible.
- B. To confirm that the spreadsheets could be used as a source of analytic data.
- C. To determine what future usage limitations the spreadsheets might have.
- D. To obtain a reliable verification about the accuracy of the source data.

Correct Answer: D

QUESTION 58

An internal auditor is preparing a draft observation based on her assessment of an accounts payable process. Which of the following is a process recommendation?

- A. Authorization policy for accounts payable was not followed for payments above \$10, 000.
- B. Authorization policy requires two levels of approval for all payments above \$10, 000.
- C. Because of non-compliance with authorization policy, inappropriate payments may be made for payments above \$10, 000.
- D. The accounts payable authorization actions for all payments should be automated.

Correct Answer: D

QUESTION 59

During the planning phase of an audit, an internal auditor preliminarily concluded that the controls for a process were adequately designed to manage the associated risk. Under what conditions might this preliminary assessment subsequently prove to be unreliable?

- A. Compensating controls from other processes were not present.
- B. Redundant controls are not in place to enhance well designed controls.

- C. Entity level controls are informal and not consistently enforced.
- D. Process controls were not developed from an existing key control checklist.

Correct Answer: C

QUESTION 60

Which of the following is not part of the five-attribute approach to developing documentation for an audit observation?

- A. Condition.
- B. Effect.
- C. Management response.
- D. Recommendation.

Correct Answer: C

QUESTION 61

Which of the following types of information would an internal auditor expect to find in the supporting documentation for a high-level accounts payable process flowchart?

- A. A copy of the new customer request form.
- B. An overview of the steps for validating invoices.
- C. The number of payments paid before the due date of the invoice.
- D. The payment terms and credit limit of the vendor to be paid.

Correct Answer: B

QUESTION 62

Which type of documentary evidence gathered by an organization's internal auditors has the highest level of reliability?

- A. Inventory test counts.
- B. Bank statements.
- C. Remittance advices.
- D. Written policy statements.

Correct Answer: A

QUESTION 63

An internal auditor is testing, on a sample basis, whether invoices paid between January 1 and December 31 are supported by appropriately approved purchase orders. Over 25, 000 invoices were paid during the fiscal year, which runs from the first of April to the end of March. The auditor sets the acceptable risk of assessing control risk too low at 5% and the tolerable deviation rate at 5%. The internal auditor consults the previous audit and sets the expected population deviation rate at 1%. Sample size (77) is selected from a table and rounded up to 80. No sample deviations were found. The upper deviation limit was 3.7%.

Which of the following statements represents a valid conclusion regarding this information?

- A. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%. Results indicated that the sample size was too small, as no sample deviations were found.
- B. I am 95% confident that the actual population deviation rate is 3.7%. Since this is less than the tolerable deviation rate, quantitative attribute testing results indicate that the control is effective.
- C. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%. The quantitative attribute testing results indicate that the control is effective.
- D. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%. The quantitative attribute testing results indicate that the control is not effective.

Correct Answer: C

QUESTION 64

Which of the following is not considered one of the most common red flags for perpetrators of fraud?

- A. Excessive control issues.
- B. Repeat performance issues.
- C. Unusually close association with customers.
- D. Experiencing financial difficulty.

Correct Answer: B

QUESTION 65

Which of the following is a component of the internal audit value proposition endorsed by IIA guidance?

- A. Insight.
- B. Independence.
- C. Integrity.
- D. Competency.

Correct Answer: A

QUESTION 66

The chief audit executive needs to revise the internal audit activity's (IAA) charter. The revision must address the element of authority.

Which of the following statements meets this requirement?

- A. The IAA shall identify and assess all potential risks to the operations of the organization.
- B. The IAA shall be granted access to all records relevant to the performance of its duties.
- C. Following its assessment, the IAA shall recommend risk control processes and resource management strategies.
- D. The IAA shall deliver an initial report of its findings to the organization's board within 120 days of the beginning of the engagement.

Correct Answer: B

QUESTION 67

According to the Standards, which of the following statements best describes the required content of the chief audit executive's (CAE) report to senior management and the board on the internal audit activity (IAA)?

- A. The CAE must report on significant risk exposures, control issues, and governance issues.
- B. The CAE must report on policies, procedures, and best practices of the IAA.
- C. The CAE must report on quality assurance techniques, statistical analysis methods, and other analytical processes used.
- D. The CAE must report on auditors' continuing education activities, staffing changes, and any outsourcing to external parties.

Correct Answer: A

QUESTION 68

An internal auditor has been engaged to assess fraud risks associated with a new financial software system.

Which competency would best help the auditor complete the task?

- A. Expertise in identifying information technology risks.
- B. A thorough understanding of organizational governance principles.
- C. Proficiency in creating and utilizing process maps.

D. Knowledge of key management and business principles.

Correct Answer: A

QUESTION 69

According to IIA guidance, which of the following statements is correct concerning the knowledge, skills, and competencies required to fulfill the responsibilities of the internal audit activity (IAA)?

- A. The IAA must collectively possess the knowledge, skills, and competencies needed to perform all engagements.
- B. Each internal auditor in the IAA must possess the competencies required to detect and investigate fraudulent transactions.
- C. The IAA must not decline any engagement based solely on a lack the necessary knowledge, skills, and competencies to perform it.
- D. The competencies of external service providers must be assessed by the chief audit executive before the IAA can use external service providers' work.

Correct Answer: D

QUESTION 70

Which of the following best describes the trait that an internal auditor exercises when considering the extent of work needed to achieve the engagement's objectives?

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

Correct Answer: B

QUESTION 71

What would a chief audit executive most likely recommend that an internal auditor do to prepare for an increased demand in advisory services?

- A. Participate in continuing professional development activities, such as training courses or rotations into other business units.
- B. Review records from prior engagements to determine how best to align the current engagement activities with prior activities.
- C. Expand the scope of every future internal audit activity to all parts of the organization, rather than only the departments identified in the activity's charter.
- D. Specialize in one specific aspect of internal auditing, such as risk assessment or information technology controls.

Correct Answer: A

QUESTION 72

According to IIA guidance, which of the following is the most likely obstacle to undertaking a quality assurance and improvement program by the internal audit activity?

- A. The size of internal audit department under review.
- B. The time commitment to complete.
- C. The lack of independence and objectivity.
- D. The inability to adequately fund the program.

Correct Answer: D

QUESTION 73

With regard to external assessments of an internal audit activity (IAA), which of the following is the chief audit executive required to discuss with the board?

- A. External reviewer conflicts of interest, and the need for an external assessment more frequently than once every five years.
- B. External reviewer conflicts of interest, and the timeline of the external assessment.
- C. The need for an external assessment more frequently than once every five years, and the simplest method for the external reviewer to join the IAA's organization.
- D. The simplest way for the external reviewer to join the IAA's organization, and the timeline of the external assessment.

Correct Answer: A

QUESTION 74

Performing a monthly analysis of potential duplicate invoices paid to suppliers is an example of which type of fraud control?

- A. Preventive control.
- B. Corrective control.
- C. Proactive control.
- D. Detective control.

Correct Answer: D

QUESTION 75

Which of the following are typical management control activities?

- A. Reconciliation, planning, and inquiry.
- B. Reconciliation, planning, and documentation.
- C. Reconciliation, inquiry, and documentation.
- D. Planning, inquiry, and documentation.

Correct Answer: C

QUESTION 76

Which of the following definitions best describes enterprise risk management?

- A. Enterprise risk management is narrower than internal control and focuses on managing the risk of loss resulting from external events.
- B. Enterprise risk management is narrower than internal control and focuses on risk mitigation strategies across the enterprise.
- C. Enterprise risk management is broader than internal control and focuses on risk identification and management, and assurance that business objectives will be met.
- D. Enterprise risk management is broader than governance and internal control, and focuses on activities designed to ensure that risks are contained at a level acceptable to the enterprise.

Correct Answer: C

QUESTION 77

According to the COSO framework, which of the following is not a principle of internal control?

- A. Management's philosophy and operating style.
- B. Human resource policies and practices.
- C. Integrity and ethical values.
- D. Risk assessment.

Correct Answer: D

QUESTION 78

According to IIA guidance, which of the following best describes how risks are measured?

- A. Likelihood and probability.
- B. Impact and relevance.
- C. Velocity and rate of occurrence.
- D. Likelihood and impact.

Correct Answer: D

QUESTION 79

An internal auditor is planning an operational audit of the accounts payable function. Which of the following best mitigates the risk of the organization being a victim of disbursement fraud by employees?

- A. Accounts payable payment records are checked against supplier invoices.
- B. Accounts payable are aged by vendors.
- C. The accounts payable trial balance is reconciled to the general ledger.
- D. The accounts payable function is properly segregated from the cash custody function.

Correct Answer: D

QUESTION 80

Which of the following is a limitation of using observation as a manual audit procedure?

- A. Observation provides information at a certain time and makes it difficult to draw representative conclusions.
- B. Observation is not as persuasive as inquiry due to a lack of direct evidence.
- C. Observation is performed specifically to test the validity of documented or recorded information.
- D. Observation may cause individuals to behave less critically or carefully if they are aware that other forms of manual audit procedures have already taken place.

Correct Answer: A

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