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IIA-CIA-Part1

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

Sections

1. Volume A
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Exam A

QUESTION 1

An organization has a policy requiring two signatures on all checks written for amounts in excess of \$10, 000. When evaluating controls over disbursements, an auditor would conclude that a greater risk exists if.



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- A. The auditor located two checks for \$9, 000 each that contained one authorized signature.
- B. The \$10, 000 was an immaterial amount to the organization and very few cash disbursements required an amount in excess of \$10, 000.
- C. The director of accounting was not one of the authorized signers.
- D. There were several instances in which successively numbered checks for amounts between \$5, 000 and \$10, 000 were made payable to the same vendor.

Correct Answer: D

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 2

Which of the following is not an appropriate type of coordination between the internal audit activity and regulatory auditors?

- A. Regulatory auditors share their perspective on risk management, control, and governance with the internal auditors.
- B. Internal auditors perform fieldwork at the direction of the regulatory auditors.

- C. Internal auditors review copies of regulatory reports in planning related internal engagements.
- D. Regulatory and internal auditors exchange information about planned activities.

Correct Answer: B

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 3

Which of the following activities most significantly increases the risk that a bank will make poor-quality loans to its customers?

- A. Borrowers may not sign all required mortgage loan documentation.
- B. Fees paid by the borrower at the time of the loan may not be deposited in a timely manner.
- C. The bank's loan documentation may not meet the government's disclosure requirements.
- D. Loan officers may override the lending criteria established by senior management.

Correct Answer: D

Section: Volume A

Explanation



Explanation/Reference:

QUESTION 4

An organization that outsources much of its internal audit work to an external service provider is planning for an external quality assessment. Which of the following options would accomplish this task and be in conformance with the Standards?

- A. External industry associate that performed a similar review for a supplier of the organization.
- B. A team from an independent entity that previously employed the chief audit executive of the organization.
- C. A team under the direction of the organization's chief audit executive with validation by a former manager of the internal audit activity.
- D. The same external service provider because of its competency and experience with the organization.

Correct Answer: A

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 5

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 6

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 7

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 8

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 9

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
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 10

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?



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- 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
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 11

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
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 12

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
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 13

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

Section: Volume A
Explanation

Explanation/Reference:

QUESTION 14

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
Section: Volume A
Explanation

Explanation/Reference:



QUESTION 15

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
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 16

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 17

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 18

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 19

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 20

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 21

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**

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 22

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 23

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?



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- 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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 24

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 25

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 26

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
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 27

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
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 28

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 29

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

Section: Volume A

Explanation

Explanation/Reference:



QUESTION 30

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 31

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 32

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

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 33

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
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 34

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
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 35

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
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 36

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

Section: Volume A

Explanation

Explanation/Reference:



QUESTION 37

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



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- 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
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 38

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
Section: Volume A
Explanation

Explanation/Reference:



QUESTION 39

To assure that the technical proficiency of internal auditors is appropriate for the audit engagements to be performed, a chief audit executive should:

- A. Consider the scope of work and level of responsibility when establishing criteria for education and experience in filling internal auditing positions.
- B. Ensure that each newly hired auditor is qualified in all of the disciplines needed to accomplish the department's audit mission.
- C. Oversee a training program that matches the actual training provided with the interests of individual auditors.
- D. Require all of the audit staff to pursue a minimum number of continuing professional education hours each year.

Correct Answer: A
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 40

Which of the following best describes the most important criteria when assigning responsibility for specific tasks required in an audit engagement?

- A. Auditors must be given assignments based primarily upon their years of experience.
- B. All auditors assigned an audit task must have the knowledge and skills necessary to complete the task satisfactorily.
- C. Tasks must be assigned to the audit team member who is most qualified to perform them.
- D. All audit team members must have the skills necessary to satisfactorily complete any task that will be required in the audit engagement.

Correct Answer: B

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 41

In advance of a preliminary survey, a chief audit executive sends a memorandum and questionnaire to the supervisors of the department to be audited. What is the most likely result of that procedure?

- A. It creates apprehension about the audit engagement.
- B. It involves the engagement client's supervisory personnel in the audit.
- C. It is an uneconomical approach to obtaining information.
- D. It is only useful for audits of distant locations.



Correct Answer: B

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 42

Which of the following steps would not be included in a program of selecting and developing human resources for an internal audit department?

- A. Scheduling periodic meetings with individual auditors, during which the chief audit executive provides counsel regarding each auditor's performance and professional career development.
- B. Establishing an internal review team to assess the auditors' and audit department's compliance with standards, level of audit effectiveness, and compliance with departmental policy.

- C. Developing specific job descriptions for audit staff, audit managers, and other auditing positions.
- D. Establishing in-house training programs and requiring continuing education for audit staff. **Correct Answer: B**

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 43

Auditors 1, 2, and 3 work out of various offices. Each must be assigned to one, and only one, of three audit locations (A, B, or C). The cost of sending each auditor to each location is listed below:

Audit Locations

Auditor 1

- A
- B
- C

Auditor 2

- \$200
- \$300
- \$400

Auditor 3

- \$400
- \$300
- \$600

Auditor 4

- \$200
- \$200
- \$500

The minimum cost with which this assignment can be accomplished is:

- A. \$800
- B. \$900



- C. \$1, 000
- D. \$1, 100

Correct Answer: B
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 44

An audit of the quality control department is being planned. Which of the following would least likely be used in the preparation of a preliminary survey questionnaire?

- A. An analysis of quality control documents.
- B. The permanent audit file.
- C. The prior audit report.
- D. Management's charter for the quality control department.

Correct Answer: A
Section: Volume A



Explanation

Explanation/Reference:

QUESTION 45

An objective for an audit of a medical research corporation is to evaluate management's controls to ensure that timely reports are submitted to sponsors of contracted research projects. In planning the audit to achieve this objective, the auditor should begin by:

- A. Reviewing policies and procedures.
- B. Interviewing a group of research managers.
- C. Observing report preparation in a number of laboratories.
- D. Sending a questionnaire to a sample of research sponsors.

Correct Answer: A
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 46

Which of the following internal control weaknesses would an auditor most likely detect while reviewing a flowchart that depicts the purchasing function of an organization?

- A. Purchasing policies have not been updated.
- B. The organization is not taking advantage of quantity discounts available from its suppliers.
- C. Payments for goods received have not been authorized at the appropriate level.
- D. Payments to suppliers are made before goods are received.

Correct Answer: D

Section: Volume A

Explanation

Explanation/Reference:



QUESTION 47

Which source of audit evidence would provide the least value in flowcharting an organization's purchasing process?

- A. An interview with the purchasing supervisor.
- B. A review of a sample of purchase orders which were completed during the last month.
- C. A review of the purchasing policies and procedures manual.
- D. A walk-through of the process with a member of the purchasing staff.

Correct Answer: B

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 48

Internal auditors exercise judgment about the type and amount of information to be collected. The primary purpose of this judgment is to:



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- A. Eliminate the risk of drawing incorrect conclusions.
- B. Minimize the cost of the audit engagement.
- C. Comply with the Standards.
- D. Provide a sound basis for audit observations and recommendations.

Correct Answer: D

Section: Volume A

Explanation

Explanation/Reference:



QUESTION 49

Which of the following is a benefit from reduced testing during a particular phase of an audit engagement?

- A. The size of the internal audit activity can be reduced.
- B. There is less concern about assessing inherent risk.
- C. The level of planned audit risk is lowered.
- D. Additional audit hours are available for pursuing other engagement objectives.

Correct Answer: D

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 50

Which of the following would be the least desirable criteria against which to judge current operations of a company's treasury function?

- A. The operations of the treasury function as documented during the last audit engagement.
- B. Company policies and procedures delegating authority and assigning responsibilities.
- C. Finance textbook illustrations of generally accepted good treasury function practices.
- D. Codification of best practices of the treasury function in relevant industries.

Correct Answer: A

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 51

A bakery chain has a statistical model that can be used to predict daily sales at individual stores based on a direct relationship to the cost of ingredients used and an inverse relationship to rainy days. What conditions would an auditor look for as an indicator of employee theft of food from a specific store?

- A. On a rainy day, total sales are greater than expected when compared to the cost of ingredients used.
- B. On a sunny day, total sales are less than expected when compared to the cost of ingredients used.
- C. Both total sales and cost of ingredients used are greater than expected.
- D. Both total sales and cost of ingredients used are less than expected.

Correct Answer: B

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 52

To promote a positive image within an organization, a chief audit executive (CAE) adjusted the audit plan to focus on assurance engagements that highlighted potential costs to be saved. Negative observations were to be omitted from engagement final communications. Which action taken by the CAE would be considered a violation of the Standards?

- I. The focus of the audit function was changed without modifying the audit charter or notifying the audit committee.
- II. Negative observations were omitted from the engagement final communications.
- III. Cost savings and recommendations were highlighted in the engagement final communications.

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

Correct Answer: B
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 53

Which of the following actions would be considered a violation of the Standards?

- I. Drafts of engagement communications were reviewed with the audit client to obtain input. The client's comments were considered when developing the engagement final communication.
- II. An auditor participated as part of a development team to review the control procedures to be incorporated into a major computer application under development.
- III. Given limited resources, the chief audit executive performed a risk analysis to determine which functions to audit.

- A. II only B. I and III only
- C. I, II, and III.
- D. None of the above.

Correct Answer: D
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 54

A manufacturer uses a materials requirements planning (MRP) system to track inventory, orders, and raw materials requirements. What condition should an auditor search for in the MRP database if a preliminary assessment indicated that inventory is understated?

- I. Item cost set at zero.
- II. Negative quantities on hand.

- III. Order quantity exceeding requirements.
- IV. Inventory lead times exceeding delivery schedule.

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

Correct Answer: A
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 55

To identify those components of a telecommunications system that present the greatest risk, an internal auditor should first:

- A. Review the open systems interconnect network model.
- B. Identify the network operating costs.
- C. Determine the business purpose of the network.
- D. Map the network software and hardware products into their respective layers.



Correct Answer: C
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 56

The chief audit executive's responsibility regarding control processes includes:

- A. Assisting senior management and the audit committee in the development of an annual assessment about internal control.
- B. Overseeing the establishment of internal control processes.
- C. Maintaining the organization's governance processes.
- D. Ensuring that the internal audit activity assesses all control processes annually.

Correct Answer: A
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 57

In order to save time, an audit manager no longer required that a standard internal control questionnaire be completed for each audit engagement. Does this represent a violation of the Standards?

- A. Yes, because internal control should be evaluated on every engagement and the internal control questionnaire is the mandated approach to evaluate controls.
- B. Yes, because internal control should be evaluated on every engagement and the internal control questionnaire is the most efficient method to do so.
- C. No, because auditors may omit necessary procedures if there is a time constraint, based on audit judgment.
- D. No, because auditors are not required to complete internal control questionnaires on every engagement.

Correct Answer: D
Section: Volume A
Explanation

Explanation/Reference:



QUESTION 58

The primary reason that a bank would maintain a separate compliance function is to:

- A. Better manage perceived high risks.
- B. Strengthen controls over the bank's investments.
- C. Ensure the independence of line and senior management.
- D. Better respond to shareholder expectations.

Correct Answer: A
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 59

Which of the following would be the most useful in developing an annual audit plan?

- A. General purpose audit software.
- B. Voting software and hardware.
- C. Flowcharting and data capture software.
- D. Risk assessment software.

Correct Answer: D

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 60

Which of the following is not an appropriate control related to sales in a manufacturing company?

- A. Customers' orders are recorded promptly.
- B. Goods shipped are matched with valid customer orders.
- C. Goods returned are inspected for damage by the sales department and then entered into inventory.
- D. Credit department approval is required for credit sales transactions.

Correct Answer: C

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 61

Inadequate risk assessment would have the strongest negative impact in which of the following phases of an audit engagement?



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- A. Determining the scope.
- B. Reviewing internal controls.
- C. Testing.
- D. Evaluating findings.

Correct Answer: A

Section: Volume A

Explanation

Explanation/Reference:



QUESTION 62

In order to exercise due professional care as defined in the International Professional Practices Framework, an internal auditor should:

- I. Consider the probability of significant noncompliance in each audit engagement.
 - II. Perform assurance procedures with sufficient care to ensure that all risks are identified.
 - III. Weigh the cost of assurance against the benefits.
-
- A. I and II only
 - B. I and III only
 - C. II and III only
 - D. I, II, and III.

Correct Answer: B
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 63

In developing an appropriate work program for an audit engagement, the most important factor for an audit supervisor to consider is the:

- A. Availability of records and data.
- B. Potential impact of risks.
- C. Capabilities of audit personnel.
- D. Time required to complete the engagement.

Correct Answer: B
Section: Volume A
Explanation

Explanation/Reference:



QUESTION 64

Organizations that use a highly structured command-and-control management approach are at greater risk of:

- A. Delayed response due to the inability to reach consensus among decision makers.
- B. Negative consequences that result from lower-level staff's unwillingness to confront errors by superiors.
- C. Erosion of staff morale due to perceptions of ineffective leadership.
- D. Waste and abuse of organizational resources resulting from management override of controls.

Correct Answer: B
Section: Volume A
Explanation

Explanation/Reference:

QUESTION 65

In order to provide the most useful information for an organization's risk management decisions, which of the following should be assessed?

- A. Risk levels for future events based on the degree of uncertainty of those events and their cost of mitigation.
- B. Inherent and control risks and their impact on the extent of financial misstatements.
- C. Risk levels of current and future events, their effect on the achievement of the organization's objectives, and their underlying causes.
- D. Risk levels of current and future events, their impact on the organization's mission, and the potential for the elimination of existing risk factors.

Correct Answer: C

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 66

Which of the following represents the most effective governance structure?

- I.
 - Operating
 - Executive
 - Internal
 - Management
 - Management
 - Auditing
 - Responsibility for risk
 - Oversight role
 - Advisory role

- II.
 - Oversight role
 - Responsibility for risk
 - Advisory role

- III.
 - Responsibility for risk
 - Advisory role
 - Oversight role



IV.
Oversight role
Advisory role
Responsibility for risk

A. I Only	
B.....	21
C.....	21
D.....	63
Correct Answer:	63
Section: Volume	63

Explanation

Explanation/Reference:

QUESTION 67

Which of the following represents the correct order of the risk management process?

- A. Resource allocation, risk management metrics, risk assessment, post-mortem analysis, effective communication.
- B. Risk management metrics, resource allocation, risk assessment, effective communication, post-mortem analysis.
- C. Risk assessment, resource allocation, risk governance and reporting, post-mortem analysis, feedback.
- D. Resource allocation, risk monitoring, risk assessment, feedback, post-mortem analysis.

Correct Answer: C
Section: Volume A

Explanation

Explanation/Reference:

QUESTION 68

Which of the following is a role of the board of directors in the governance process?

- A. Conduct periodic assessments of the organization's governance systems.
- B. Obtain assurance concerning the effectiveness of the organization's governance systems.

- C. Implement an effective system of internal controls to support the organization's governance systems.
- D. Review and approve operational goals and objectives.

Correct Answer: B

Section: Volume A

Explanation

Explanation/Reference:

QUESTION 69

The primary objective of risk-based auditing is to assess the:

- A. Economy of controls.
- B. Compliance with controls.
- C. Adequacy of controls.
- D. Efficiency of controls.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:



QUESTION 70

Which of the following would be most relevant regarding the internal control environment?

- A. Assessing controls over computerized applications.
- B. Documenting the organizational structure.
- C. Comparing and validating internal performance with external benchmarking.
- D. Maintaining and reviewing detailed financial records.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 71

Due to urgent requests from management, a busy internal audit activity finds that it can no longer meet all of its commitments contained in the annual audit plan. The best course of action for the chief audit executive to take would be to:

- A. Continue with the plan and seek opportunities to adjust priorities and reallocate resources.
- B. Advise senior management and request that they reconsider these additional requests using more rigorous risk assessment and prioritization factors.
- C. Advise the board and senior management and request a reassessment of the plan.
- D. Advise the board immediately and seek their support for additional resources to meet the needs of the plan.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 72

The chairperson of an organization's audit committee has obtained a risk management report that identifies significant industry concerns that impact the organization. The chairperson has asked the chief audit executive (CAE) to review these concerns and advise if they are relevant to the organization. How should the CAE respond?

- A. Accept the engagement but communicate only with the audit committee to protect the confidentiality of the request.
- B. Decline the engagement because it is outside of the scope of the internal audit charter.
- C. Decline the engagement because it impairs the internal audit activity's independence.
- D. Accept the engagement but inform senior management of the request.

Correct Answer: D

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 73

During an audit engagement, an internal auditor finds that management is not complying with previous commitments made to the external auditors. However, the auditor determines management's actions to be justified due to significant changes in the business. The best course of action for the auditor to take would be to:

- A. Proceed with the audit engagement and assess the changes actually implemented by management.

- B. Inform the external auditors and seek their guidance.
- C. Inform the external auditors and remove the associated work from the internal audit scope.
- D. Compare the recommended changes against the changes made by management and advise management which action to take.

Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 74

Which of the following statements is correct regarding risk analysis?

- A. The extent to which management judgments are required in an area could serve as a risk factor in assisting the auditor in making a comparative risk analysis.
- B. The highest risk assessment should always be assigned to the area with the largest potential loss.
- C. The highest risk assessment should always be assigned to the area with the highest probability of occurrence.
- D. Risk analysis must be reduced to quantitative terms in order to provide meaningful comparisons across an organization.

Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 75

During an audit of financial contracts, an auditor learns that a relative has a substantial loan with the organization. The auditor should:

- A. Exclude the relative's information from the audited work and proceed with the audit engagement.
- B. Proceed with the audit engagement but disclose in the engagement final communication that the relative is a customer.
- C. Immediately withdraw from the audit engagement.
- D. Notify management and the chief audit executive (CAE) and have the CAE determine whether the auditor should continue with the audit engagement.

Correct Answer: D
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 76

The audit process used by the internal audit activity of a large wholesale clothing company does not include an engagement letter or project approval document. The most serious consequence of this deficiency in the process is that the:

- A. Audit schedule may not be optimal from the engagement client's perspective.
- B. Audit objectives may not be understood by management of the area being audited.
- C. Audit resources may not be sufficient.
- D. Audit plan priority may have changed.

Correct Answer: B
Section: Volume B

Explanation

Explanation/Reference:



QUESTION 77

Which of the following situations allows for the most objectivity on the part of an internal auditor?



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- A. Assessing testing procedures in a new computer system.
- B. Performing a risk assessment of a new financial instrument.

- C. Drawing conclusions from a sample of financial transactions.
- D. Comparing current environmental activities against legislation.

Correct Answer: D

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 78

A chief audit executive (CAE) for a specialty retailer is asked by management to review the controls in place to manage their electronic funds transfer process. The internal audit activity has no experience with similar engagements. What is the most appropriate course of action for the CAE to take?

- A. Plan the engagement and begin fieldwork using existing staff.
- B. Attempt to discourage management from the request.
- C. Hire an outside consulting firm to assist with the engagement.
- D. Defer the audit until current staff can be appropriately trained.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:



QUESTION 79

Using the internal audit department to coordinate regulatory examiners' efforts is beneficial to the organization because internal auditors can:

- A. Influence regulatory interpretation of law to better match corporate practice.
- B. Recommend changes to the scope of the regulatory examiners' review.
- C. Perform fieldwork for the regulatory examiners and thus shorten the regulatory examiners' review.
- D. Supply evidence of adequate compliance testing through internal audit workpapers and reports.

Correct Answer: D

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 80

Internal auditors can benefit from a strong relationship with the external auditors because external auditors can:

- A. Provide internal auditors with an independent and knowledgeable viewpoint.
- B. Concur with the internal auditors' reports and thus improve the quality of assurance provided to management.
- C. Increase the effectiveness of internal control sampling techniques.
- D. Assist the internal auditor by providing information obtained from similar audits with other clients.

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:



QUESTION 81

Risk assessments can vary in format, but generally include.

- I. A description of identified risks.
- II. Tests of audit controls.
- III. A system of rating risks.
- IV. Sample size identification.

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

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 82

Risk assessments are valuable to the internal audit activity's planning process because they assist in:

- A. Eliminating all areas with low risk from the audit plan.
- B. Educating management on the importance of keeping the internal audit activity informed of organizational changes.
- C. Identifying the audit universe or auditable activities that need to be reviewed.
- D. Identifying risks that management and the internal auditors have overlooked.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 83

A quantitative risk assessment model has all of the following advantages except:

- A. Accommodating a large number of risk factors in the assessment.
- B. Providing documentation for the chief audit executive, who must defend the long-range audit plan.
- C. Providing a systematic method of applying weightings to risks and priorities.
- D. Removing the need for judgment on the part of the chief audit executive.

Correct Answer: D

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 84

Continuing Professional Education (CPE) hours for Certified Internal Auditors may be achieved by:

- A. Attending audit staff meetings.
- B. Verifying that all completed audit tests are fully documented.
- C. Publishing an article on the company's internal audit department.
- D. Obtaining experience on the job.

Correct Answer: C
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 85

In a manufacturing company, which department would be the internal audit activity's most reliable source of information on the controls over minimizing defective goods?

- A. Manufacturing.
- B. Quality control.
- C. Research and development.
- D. Inventory management.

Correct Answer: B
Section: Volume B

Explanation

Explanation/Reference:



QUESTION 86

Internal auditors who are concerned with potential risks due to the mishandling of records or transactions should take into consideration:

- A. The type and nature of the activities to be examined.
- B. Whether employees in key positions of trust are bonded.
- C. The history of losses suffered by the company.
- D. The results of prior risk assessments.

Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 87

Which of the following is true with respect to the risk assessment process?

- A. The ethical climate should not be included since this factor cannot be measured quantitatively.
- B. More than one risk factor may have to be used to ensure that the risk assessment is comprehensive.
- C. Each risk factor should be given equal weighting in order to reduce the opportunity for bias.
- D. The risk assessment process should be conducted at least every three years.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 88

Which of the following lists these audit steps in the correct chronological order?

- I. Create the engagement work program.
- II. Conduct the exit conference.
- III. Perform fieldwork.
- IV. Schedule the audit engagement.

Issue a summary report of audit findings.

- A. I, IV, III, II, V. B.
- I, IV, II, III, V. C.
- IV, I, III, II, V.
- D. IV, III, I, V, II.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 89

Which of the following would have the least impact (either positive or negative) on an assessment of a department's control environment?

- A. The department managed long-term investments, including investment in derivatives and other financial instruments, to maximize return.
- B. The department manager sets a tone of honesty and integrity in all business dealings and this tone is emulated by department personnel.
- C. Many department functions were duplicated or verified by other department employees as part of the department's normal procedures.
- D. Audit tests designed to verify compliance with control procedures detected a general failure to follow standard procedures for transaction authorization.

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 90

To ensure that due professional care has been taken during an audit engagement, an internal auditor should always:

- A. Ensure that all financial information related to the engagement is included in the audit plan and examined for irregularities.
- B. Document all audit tests completely.
- C. Consider the possibility of noncompliance or irregularities at all times during an engagement.
- D. Notify the audit committee of any noncompliance or irregularity discovered during an engagement.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 91

When using a risk assessment model to develop audit plans, it is essential that the chief audit executive take into account the:



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- A. Results of the last audit.
- B. Planned visits by the external auditors during the upcoming year.
- C. Recent or expected changes in management direction and objectives.
- D. Dates of future board meetings.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 92

A bank uses a risk analysis matrix to quantify the relative risk of auditable entities. The analysis involves rating auditable entities on risk factors using a scale of 1 to 10, with 10 representing the greatest risk. A partial list of risk factors and the ratings given to three of the bank's departments is provided below:

Department

Risk Factor

A

B

C

Control structure

9

5

7

Nature of assets in department



2
7
9

Dollar value of assets

6
6
8

Complexity of transactions

3
4
8

Which of the following statements regarding risk in the departments is true?

- A. As compared to departments A and C, department B has a stronger control system to compensate for the greater complexity of the department's transactions and dollar value of its assets.
- B. The internal audit activity should schedule audits of department B more often than audits of department C because of the relative control strength of department C as compared to department B.
- C. The nature of department A's control structure may be justified by the nature of the department's assets and the complexity of its transactions.
- D. The relative ranking of the departments in order of their risk, from greatest to least risk, is: A; C; B.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 93

An internal quality assessment of the internal audit activity should provide the chief audit executive with.

- A. Recommendations for improvement.
- B. Objectives for internal audit engagements.
- C. Confirmation of action on past audit recommendations.
- D. Appraisals of internal audit staff performance.

Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 94

In the annual audit of the financial statements of a company with high inherent risk and a very strong control system, the external auditor may be able to allow detection risk to rise because.

- A. Audit risk has been reduced.
- B. Control risk has been assessed at a lower level.
- C. The company's operations are very susceptible to misstatements.
- D. Whenever inherent risk is high, control risk is disregarded.

Correct Answer: B
Section: Volume B

Explanation

Explanation/Reference:



QUESTION 95

An organization receives the most value from an internal audit activity's enterprise-wide risk assessment when the auditor:

- A. Focuses primarily on enterprise-level risks.
- B. Considers activities at all levels of the organization.
- C. Reviews special projects and new initiatives.
- D. Validates supporting financial and operational data.

Correct Answer: B
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 96

An organization's external auditor has prepared a list of risks and issues and has recommended to senior management that the internal audit activity focus on these items. Senior management has forwarded the list to the chief audit executive (CAE). The CAE should:

- A. Incorporate the external auditor's requirements into the internal audit plan.
- B. Ignore the external auditor's requirements because they are outside of the internal audit activity's planned scope of work.
- C. Consider the issues raised by the external auditor for possible inclusion in the planned scope of work.
- D. Report the risks and issues to the audit committee for possible future attention.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 97

The audit committee has asked the chief audit executive (CAE) to assist in the selection of a new external audit firm. Which of the following is an appropriate action by the CAE?

- A. The CAE and two managers from the audit staff review the bids and select one firm to meet with the audit committee for the committee's approval.
- B. The CAE develops a formal set of criteria for the audit committee to use in selecting the external auditor.
- C. The CAE, chief financial officer, and controller review the bids, interview two firms, and recommend one of the two firms to the audit committee for its approval.
- D. The CAE declines to participate in the process because providing this assistance would result in compromising the internal audit activity's objectivity.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 98

An internal audit activity's work schedule should always provide sufficient information to the audit committee to enable it to determine whether the proposed engagements:

- A. Support the organization's objectives.

- B. Include sufficient fraud awareness.
- C. Will likely result in the detection of any major risk exposures.
- D. Are likely to detect control deficiencies.

Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 99

The chief audit executive for an organization has just completed a risk assessment process, identified the areas with the highest risk, and assigned an audit priority to each. Which of the following statements is true and consistent with the International Professional Practices Framework?

- I. Items should be ranked in the order of quantifiable dollar exposure to the organization.
 - II. The audit priorities should be in order of major control deficiencies.
 - III. The risk assessment, though quantified, is the result of professional judgments about both exposures and probability of occurrences.
- A. I only
 - B. III only
 - C. II and III only
 - D. I, II, and III.

Correct Answer: B
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 100

What role, if any, should the internal audit activity have in the process of following up on observations and recommendations made by the external auditors?

- A. The internal audit activity should have no role in this process in order to ensure independence.
- B. The internal audit activity should become involved only if the chief audit executive has sufficient evidence that the follow-up is not occurring.
- C. The internal audit activity should review the adequacy and effectiveness of management's follow-up actions.
- D. The internal audit activity should become involved only if specifically requested by management or the board of directors.

Correct Answer: C
Section: Volume B
Explanation

Explanation/Reference:

QUESTION 101

A company has entered into a \$20, 000, 000 fixed-price contract with a general contractor for the construction of a new retail outlet. For this contract, which of the following would represent the greatest risk?

- A. Excessive labor charged to the project.
- B. Poor physical protection of materials and equipment.
- C. Failure to complete the project within budget.
- D. Substitution of inferior materials.

Correct Answer: D
Section: Volume B
Explanation

Explanation/Reference:



QUESTION 102

In selecting an instructional strategy for developing internal audit staff, a chief audit executive should first review the:

- A. Department's budget constraints.
- B. Internal auditors' personal development needs.
- C. Content of potential training courses.
- D. Organization's objectives.

Correct Answer: D
Section: Volume B
Explanation

Explanation/Reference:

QUESTION 103

Which of the following is not an appropriate role of the internal audit activity in governance activities?

- A. Support the board in enterprise-wide risk assessment.
- B. Ensure the timely implementation of audit recommendations.
- C. Monitor compliance with the organization's ethics policies.
- D. Discuss areas of significant risk.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 104

When developing the annual audit plan and reviewing risk assessment priorities, a chief audit executive should always identify the:

- A. Potential recommendations for each auditable activity.
- B. Persons to whom engagement reports will be communicated.
- C. Engagement procedures to be used during the engagements.
- D. Internal audit resources required to achieve the audit plan.



Correct Answer: D

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 105

Which of the following actions by a chief audit executive would be most effective in preventing fraud?

- A. Ensure that the board is aware of all fraud that has been identified or reported.
- B. Train the internal audit staff in identifying fraud indicators.
- C. Review the adequacy of all policies that describe prohibited activities.
- D. Submit an annual report to the board on all fraud that has been detected.

Correct Answer: C
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 106

A chief audit executive would most likely use risk assessment for audit planning because it provides:

- A. A systematic process for assessing and integrating professional judgment about probable adverse conditions.
- B. A listing of potentially adverse effects on the organization.
- C. A list of auditable activities in the organization.
- D. The probability that an event or action may adversely affect the organization.

Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:



QUESTION 107

Which of the following statements regarding organizational governance is not correct?

- A. An effective internal audit function is one of the four cornerstones of good governance.
- B. Those performing governance activities are accountable to the customer.
- C. Accountability is one of the key elements of organizational governance.
- D. Governance principles and the need for an internal audit function are applicable to governmental and not-for-profit activities. **Correct Answer: B**

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 108

Noncompliance with which of the following would cause a control deficiency related to privacy protection practices?

- I. An organization's internal privacy policies.
- II. Financial accounting standards.
- III. Privacy laws and regulations.
- IV. The Standards.



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



Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 109

A tax consultancy agency retains sensitive personal information regarding its clients. Which of the following is a violation of acceptable privacy practices?

- A. Copies of printed client information not used by the agency are shredded.
- B. Employees share client information with coworkers with the permission of the client.
- C. The agency only releases client information with management's approval.

D. The agency advises clients of their privacy rights before they commence business with the agency.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 110

When an external auditor unknowingly fails to modify an opinion on financial statements that are materially misstated, this is an example of:

- A. An inherent risk.
- B. A control risk.
- C. An audit risk.
- D. A residual risk.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:



QUESTION 111

When a risk assessment process has been used to construct an audit engagement schedule, which of the following should receive attention first?

- A. The external auditors have requested assistance for their upcoming annual audit.
- B. A new accounts payable system is currently undergoing testing by the information technology department.
- C. Management has requested an investigation of possible lapping in receivables.
- D. The existing accounts payable system has not been audited over the past year.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 112

All of the following would normally be involved in preparing for and carrying out the internal audit activity's annual plan except:

- A. Establishing policies and procedures for workpapers and referencing.
- B. Providing periodic activity reports to the audit committee on audit engagements in progress.
- C. Assessing the amount of risk in major departments.
- D. Training audit staff on appropriate audit methodologies for addressing any newly identified risks.

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 113

When reviewing operational risk for a department whose manager adopts a laissez-faire style of leadership, it is most important for the internal auditor to verify

that:

- A. Employee decisions follow department and company guidelines.
- B. The manager considers employees' input when designing new procedures.
- C. Employees are empowered to deal with unusual or emergency situations.
- D. Management has adopted an open-door policy to assist with communication.

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 114

Which of the following factors related to an organization's performance management system would not contribute to the organization's success?

- A. Performance management is linked to competence and knowledge management.
- B. Subordinates and superiors have shared responsibility for the performance management process.

- C. Staff members own the performance management process, thereby ensuring implementation and accountability.
- D. Performance management is integrated into other organizational processes and human resource processes.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 115

A chief audit executive used risk assessment to prepare the audit work schedule. Which of the following would be the least appropriate reason to modify the schedule?

- A. Need for coordination of audit activities with the external auditors.
- B. Request for postponement since the audit would be too complicated.
- C. Change in the relative risk of auditable activities during the year.
- D. Budget constraints or expansions.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:



QUESTION 116

Which of the following would be the most effective action for an internal audit activity to take in order to assist in improving an organization's ethical climate?

- I. Review formal and informal processes within the organization that could promote unethical behavior.
- II. Conduct surveys of employees, suppliers, and customers regarding ethics.
- III. Assess the employees' knowledge of and compliance with the organization's code of conduct.

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

Correct Answer: D

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 117

Which of the following would provide the best assessment of an organization's ethical climate?

- A. Number of years that directors have been appointed to the board.
- B. Evidence of training provided to the board of directors on ethical issues.
- C. Clarity and consistency of consequences imposed by the board of directors for ethical violations.
- D. Frequency of fraud reported and results of subsequent investigations.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:



QUESTION 118

When performing benchmarking during the planning phase of a performance audit, an internal auditor should:

- A. Determine the current performance gap.
- B. Project future performance levels.
- C. Develop functional action plans.
- D. Identify comparative organizations.

Correct Answer: D

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 119

A major difference between enterprise risk management and traditional risk management lies in the narrow focus of traditional risk management on:

- I. Property and liability risks.
- II. Risks with insurance solutions.
- III. Risks impacting organizational objectives.

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

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 120

An internal audit activity encounters a scope limitation from senior management that will affect its ability to meet its goals and objectives for a potential engagement client. The nature of the scope limitation should be.

- A. Noted in the audit workpapers, but the engagement should be carried out as scheduled, with any necessary adjustments made based on the scope limitation.
- B. Communicated to the external auditors so that they can investigate the area in more detail.
- C. Communicated, preferably in writing, to the board.
- D. Communicated to management, stating that the limitation will not be accepted because it would impair the audit activity's independence.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 121

Which statement most accurately describes how criteria are established for use by internal auditors in determining whether goals and objectives have been accomplished?

- A. Management is responsible for establishing the criteria.
- B. Internal auditors should use professional standards or government regulations to establish the criteria.
- C. The industry in which a company operates establishes criteria for each member company through benchmarks and best practices for that industry.
- D. Appropriate accounting or auditing standards, including international standards, should be used as the criteria.

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 122

A company has established its environmental audit activity as part of its legal department rather than part of its internal audit activity, which reports to the audit committee. The board has requested that the chief audit executive (CAE) provide an annual opinion on whether environmental risks are being properly addressed. In these circumstances, the CAE should recommend to the audit committee that the internal audit activity:

- A. Review the recommendations in all environmental audit reports.
- B. Discuss with the environmental auditors the results of their reviews.
- C. Periodically carry out a quality assessment of the environmental audit activity.
- D. Include a review of environmental issues in some internal audit engagements.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 123

In addition to data protection, which of the following is a control that is typically used by companies to safeguard the privacy rights of their customers?

- I. End-user computing.
- II. Encryption of data.
- III. Spyware.
- IV. Intrusion detection.

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

Correct Answer: C
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 124

According to the International Professional Practices Framework, a primary purpose of evaluating the adequacy of an organization's risk management, control, and governance processes is to determine if it:

- A. Was designed to ensure compliance with policies, plans, procedures, laws, and regulations.
- B. Provides reasonable assurance that the organization's objectives will be met.
- C. Mitigates inherent risk.
- D. Assures the reliability and integrity of information used by management.

Correct Answer: B
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 125

Which of the following statements, if true, could justify an auditor's decision not to report governance-related control deficiencies to the audit committee?



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- A. Management plans to initiate corrective action.
- B. The board of directors has a separate corporate governance committee.
- C. The amounts and the potential risks associated with the deficiencies are not material to the overall organization.
- D. Governance issues are complex and the auditor should rely on management's analysis of the extent of the problem.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 126

The primary role of the internal audit activity in regard to an organization's ethical climate is to:

- A. Participate as chief ethics officer.
- B. Periodically assess the ethical climate.
- C. Utilize surveys to evaluate employee ethics.
- D. Demonstrate ethical behavior.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:



QUESTION 127

A chief audit executive (CAE) is obtaining information required by a regulatory oversight body and discovers a situation that requires management to take immediate corrective action. What is the best course of action for the CAE to take?

- A. Wait until all of the information has been gathered and reported to the oversight body before reporting the situation to management.
- B. Check with legal counsel to determine whether the situation can be reported to management before all information has been submitted to the oversight body.
- C. Report the situation to management immediately.
- D. Schedule an engagement to explore the situation in depth, before reporting to either management or the oversight body.

Correct Answer: C

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 128

Which of the following is the most important limitation on the effectiveness of audit committees?

- A. Audit committees may be composed of independent directors; however, those directors may have close personal and professional friendships with management.
- B. Audit committee members are compensated by the organization and thus favor a stockholder view.
- C. Audit committees devote most of their efforts to external audit concerns and do not pay much attention to internal auditing and the overall control environment.
- D. Audit committee members do not normally have degrees in the accounting or auditing fields.

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 129

Which of the following is a key performance indicator for an internal audit function?

- A. Audit expenditures compared to financial budgets.
- B. Percent of required continuing education hours completed.

- C. Implementation of new audit computer software.
- D. Frequency of meetings with the board members.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 130

In order to effectively handle conflict between audit team members, an audit team leader should:

- A. Avoid addressing the conflict until the leader is sure that there is a problem.
- B. Be assertive and keep the team members focused on a resolution.
- C. Ask one of the team members to resolve the issue by being more conciliatory.
- D. Transfer one of the team members to another assignment.

Correct Answer: B

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 131

In a well-developed management environment, the internal audit activity would.

- A. Report the results of audit engagements to line management as well as to senior management.
- B. Conduct regularly scheduled audits of existing systems and initial audits of new computer systems after they have begun operating.
- C. Interface primarily with senior management, minimizing interactions with line managers who are the subjects of internal audit work.
- D. Focus on the maintenance of accounting controls (such as segregation of the duties of authorization, recording, and custody) and report results to the audit



committee.

Correct Answer: A
Section: Volume B

Explanation

Explanation/Reference:

QUESTION 132

Which of the following processes should be included in a benchmarking activity?

- I. Identify key measures.
 - II. Collect data on performances and practices.
 - III. Identify opportunities for improvement.
- A. II only
 - B. I and III only
 - C. II and III only
 - D. I, II, and III.



Correct Answer: D
Section: Volume B
Explanation

Explanation/Reference:

QUESTION 133

The chief audit executive (CAE) routinely provides activity reports to the board during quarterly board meetings. Senior management has asked to review the CAE's board presentation before each board meeting so that any issues or questions can be discussed beforehand. The CAE should:

- A. Provide the activity reports to senior management as requested and discuss any issues that may require action to be taken.
- B. Not provide activity reports to senior management because such matters are the sole province of the board.
- C. Disclose only those matters in the activity reports that pertain to expenditures and financial budgets of the internal audit activity.
- D. Provide information to senior management that pertains only to completed audit engagements and observations available in published engagement final communications.

Correct Answer: A

Section: Volume B
Explanation

Explanation/Reference:

QUESTION 134

Management should be included in the development of the audit plan in order to:

- A. Provide assurance that past audit recommendations have been properly implemented.
- B. Select the audit tests that will be used for each engagement.
- C. Verify that the highest risks are included in the risk-based audit plan.
- D. Guarantee access to the organization's sites and records for audit work.

Correct Answer: C
Section: Volume B
Explanation

Explanation/Reference:



QUESTION 135

The primary reason that a chief audit executive (CAE) reviews external audit management letters and management response is to:

- A. Select areas to emphasize in future internal audit engagements.
- B. Check the effectiveness of external audit resources used.
- C. Ensure that comments in the letter are supported by evidence.
- D. Verify that there has been no duplication of internal audit work.

Correct Answer: A
Section: Volume B
Explanation

Explanation/Reference:

QUESTION 136

Which of the following statements is correct regarding corporate compensation systems and related bonuses?

- I. A bonus system should be considered part of the control environment of an organization and should be considered in formulating a report on internal control.
- II. Compensation systems are not part of an organization's control system and should not be reported as such.
- III. An audit of an organization's compensation system should be performed independently of an audit of the control system over other functions that impact corporate bonuses.

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

Correct Answer: A

Section: Volume B

Explanation

Explanation/Reference:

QUESTION 137

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 this employee, 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

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 138

A company's chief audit executive determines that the internal audit staff does not have the requisite skills to conduct an audit of the financial derivatives area. Which of the following actions would be the least acceptable?

- A. Notify the audit committee of the problem and consult with them regarding outsourcing the audit engagement to a qualified external auditing firm.
- B. Determine the requisite knowledge needed and obtain the proper training for auditors if such training is available within the appropriate time framework outlined by the audit committee.

- C. Notify the audit committee of the problem and assign the most competent auditors to perform the audit engagement.
- D. Employ the skills of a financial derivatives expert to consult on the project, and supplement the consulting with a local seminar on financial derivatives.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 139

During an audit engagement in an insurance company, an internal auditor discovered that senior management had purposely misclassified \$200,000 in assets on financial statements submitted to regulatory authorities in order to avoid significant statutory penalties. To remain in compliance with the IIA Code of Ethics, what would be the most appropriate action for the auditor to take?

- A. Note the situation in the workpapers and inform the chief executive officer.
- B. Send an informative memo to the external auditors.
- C. Discuss the matter with audit management and ensure that the audit committee is informed.
- D. Report the matter to regulatory authorities since senior management is implicated.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 140

During an audit of financial contracts, an internal auditor learns that a relative has a substantial loan with the organization. The auditor should:

- A. Exclude the relative's information from the audited work and proceed with the audit engagement.
- B. Proceed with the audit engagement but disclose in the engagement final communication that the relative is a customer.
- C. Immediately withdraw from the audit engagement.
- D. Notify management and the chief audit executive (CAE) and have the CAE determine whether the auditor should continue with the audit engagement.

Correct Answer: D

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 141

How should management obtain assurance that employees are complying with the organization's security policy?

- A. Regularly conduct independent reviews of employees' security practices.
- B. Routinely survey staff so that information related to security practices can be submitted anonymously.
- C. Rely on exception reports to identify errors.
- D. Enforce a policy that requires all employees to sign a statement that they will adhere to the organization's security policies.

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:



QUESTION 142

What is the primary purpose of a risk management program?

- A. Reduce risk to a tolerable level.
- B. Reduce all risks regardless of costs.
- C. Transfer all risks to external third parties.
- D. Identify every significant risk to avoid it.

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 143

Within the internal audit process, which of the following is not a significant advantage of employing a control model?



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- A. It provides guidance on identifying control deficiencies for each internal audit engagement.
- B. It recognizes the need to evaluate both hard and soft controls.
- C. It assists internal auditors in assessing the achievement of management's objectives.
- D. It validates the findings and recommendations of the internal audit.

Correct Answer: D

Section: Volume C

Explanation



Explanation/Reference:

QUESTION 144

An organization's chief audit executive (CAE) has been asked to conduct an assurance engagement for an information technology system that was subject to a consulting engagement in the prior year. How should the CAE respond?

- A. Decline the engagement because independence and objectivity would be impaired.
- B. Delay the assurance engagement to ensure that there is a two-year period between the engagements.
- C. Accept the engagement and assign different auditors to conduct the assurance services.
- D. Facilitate a control self-assessment workshop instead of performing an assurance engagement.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 145

According to the Standards, a review team must express an opinion on which of the following when performing an external assessment of an internal audit activity?

1. Conformance with the Standards and IIA Code of Ethics.
2. Effectiveness of continuous improvement activities.
3. Feedback from internal audit customers and other stakeholder groups.
4. Efficiency and effectiveness of the internal audit activity's administration processes.

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

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:



QUESTION 146

To develop greater internal auditing expertise, the chief audit executive (CAE) has been assigning the same relatively inexperienced team of internal auditors to a series of engagements spanning several months. Is this practice consistent with the Standards?

- A. Yes. The CAE is promoting the professional development of the staff.
- B. Yes. The experience will quickly build specialized skills and competencies.
- C. No. The team should collectively possess the competencies appropriate for the engagements.
- D. No. Teams should be comprised of both experienced and inexperienced auditors.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 147

Which of the following would be the least significant consideration when performing a risk analysis?

- A. Financial exposure and potential loss.
- B. Skills available within the audit staff.
- C. Results of prior audits.
- D. Major operating changes.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 148

Which of the following is correct regarding the implementation of a quality assurance and improvement program for the internal audit function?

- A. The board has the primary responsibility for implementation of a robust quality assurance and improvement program for internal audit.
- B. An internal audit function that is fully complying with internal assessment of quality can confidently claim it is performing in conformity with the International Professional Practices Framework.
- C. The chief audit executive can establish a formal quality assurance and improvement program that is led by an audit manager.
- D. A quality assurance and improvement program is applicable depending on the size and complexity of the audit function.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 149

Which of the following are appropriate ways to obtain continuous professional education?

1. Instructing at a local IIA training event.
2. Attending internal audit conferences and seminars.
3. Practicing specialized audit and consulting work.
4. Participating in research projects in internal auditing.

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

Correct Answer: D
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 150

Which of the following processes or tools can be used as ongoing internal assessments of the performance of the internal audit activity?

1. Analyses of audit plan completion and cost recoveries.
2. Selective peer reviews of work papers by staff involved in the respective audits.
3. Self-assessment of the internal audit activity with on-site validation by a qualified independent reviewer.
4. Feedback from audit customers and stakeholders.

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



Correct Answer: D
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 151

Which of the following are appropriate responsibilities of the audit committee in relation to the chief audit executive (CAE)?

1. Approving the internal audit charter.
2. Approving decisions regarding the appointment and removal of the CAE.
3. Approving the risk management strategy for the organization.
4. Making appropriate inquiries of management and the CAE to determine whether there are inappropriate scope and resource limitations.

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

Correct Answer: C
Section: Volume C
Explanation

Explanation/Reference:

QUESTION 152

Which of the following internal auditor attributes are affected by a conflict of interest?

- A. Independence and authority.
- B. Authority and proficiency.
- C. Independence and objectivity.
- D. Objectivity and due professional care.

Correct Answer: C
Section: Volume C
Explanation



Explanation/Reference:

QUESTION 153

Which of the following is the most appropriate outcome measure for assessing safety operations?

- A. Number of inspections conducted.
- B. Tests made of equipment.
- C. Reduction in machine down time due to accidents.
- D. Number of operations observed.

Correct Answer: C
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 154

Which of the following would be a violation of the objectivity of a certified internal auditor?

1. Accepting a motivational book from a major vendor.
2. Attending a professional sporting event as the guest of a corporate supplier.
3. Performing an internal audit engagement for a division 18 months after having controllership responsibility for that division.
4. Designing and implementing a corporate-wide utilities cost containment program.

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

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:



QUESTION 155

An organization that outsources much of its internal audit work to an external service provider is planning for an external quality assessment. Which of the following options would accomplish this task and be in conformance with the Standards?

- A. Engaging an external industry associate that performed a similar review for a supplier of the organization.
- B. Selecting a team from an independent entity that previously employed the chief audit executive of the organization.
- C. Using a team under the direction of the organization's chief audit executive, and obtaining validation from a former manager of the internal audit activity.
- D. Using the same external service provider because of its competency and experience with the organization.

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 156

In order to use "Conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, " an internal audit activity must:

- A. Satisfy all requirements of the International Professional Practices Framework during each internal audit engagement.
- B. Complete an external assessment of quality assurance to demonstrate compliance with the Standards.
- C. Establish a continuous quality assurance and improvement program.
- D. Have its charter reviewed and approved by management and the board.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 157

Which of the following is the best example of a strategic objective?

- A. Opening a new product line.
- B. Adhering to laws and regulations.
- C. Attaining a specified sales target.
- D. Safeguarding assets.



Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 158

A daily log of treasury dealers who exceeded their authorized limits serves as a:

- A. Preventive control.
- B. Detective control.
- C. Feed-forward control.

D. Directive control.

Correct Answer: B
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 159

Which of the following are acceptable resources for a chief audit executive to use when developing a staffing plan?

1. Co-sourcing arrangements.
2. Employees from other areas of the organization.
3. The organization's external auditors.
4. The organization's audit committee members.

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



Correct Answer: B
Section: Volume C
Explanation

Explanation/Reference:

QUESTION 160

Which of the following would most likely function as a detective control?



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- A. Security dogs.
- B. Alert employees.
- C. Insurance claims.
- D. Cycle counts.

Correct Answer: D
Section: Volume C
Explanation



Explanation/Reference:

QUESTION 161

One of an organization's quality objectives is to reduce the amount of rework needed in the production cycle.

Which of the following controls would be the least effective in achieving this objective?

- A. Machinery is routinely maintained to avoid production malfunctions.
- B. Employees are rewarded for suggestions that lead to quality improvements.
- C. Quality inspectors are assigned to identify any defects in the finished product.
- D. Daily reconciliations are performed between finished goods and the number of rejects.

Correct Answer: D
Section: Volume C
Explanation

Explanation/Reference:

QUESTION 162

Some of an organization's payroll transactions were batch posted to the payroll file but were not uploaded correctly to the general ledger file on the mainframe. The best control to detect this type of error would be:

- A. Edit controls on the payroll file.
- B. Appropriate segregation of duties for batch approval.
- C. Validation of hash totals.
- D. Reconciliation of paychecks to the bank account.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 163

Which of the following is the primary advantage of using a computer assisted audit technique (CAAT) to provide a higher level of assurance?

- A. CAATs can select an appropriate sample size for testing and thus provide higher level of assurance.
- B. CAATs are more objective than the traditional methods in interpreting the results.
- C. CAATs can examine the whole of population of transactions, rather than a sample, in order to identify exceptions and trends.
- D. CAATs can process the results faster and thus give a higher level of assurance.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 164

Which of the following statements is not true?

- A. The nature of consulting services that are performed by the internal audit activity should be defined in the audit charter.

- B. It is inappropriate for internal auditors to provide consulting services relating to operations for which they had previous responsibilities.
- C. A party outside the internal audit activity should oversee assurance engagements for functions over which the chief audit executive has responsibility.
- D. The chief audit executive should decline a consulting engagement if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or a part of the engagement.

Correct Answer: B
Section: Volume C
Explanation

Explanation/Reference:

QUESTION 165

Which of the following factors is not likely to affect the level of inherent risk associated with an application system?

- A. The system is strategic.
- B. Controls over the system appear reliable.
- C. The system is not a critical operating system.
- D. The system uses complex technology.



Correct Answer: B
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 166

Which of the following should an internal auditor possess in order to fulfill the responsibilities of the internal audit activity?

- A. Proficiency in applying management principles in order to stand in for the chief financial officer.
- B. An understanding of management principles in order to evaluate deviations from good practices.
- C. An appreciation of internal audit standards in order to recognize problems.
- D. Proficiency in accounting principles in order to conduct fraud investigations.

Correct Answer: B
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 167

Which of the following statements best describes the competency requirement for an auditor regarding fraud risks encountered in an engagement execution?

- A. The auditor should be able to have comparable competencies of a person whose primary responsibility is detecting and investigating fraud.
- B. The auditor must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization.
- C. The auditor is not expected to have any competency requirement regarding fraud since the role of investigating and detecting fraud belongs to other functions in the organization.
- D. The auditor must be able to have an appreciation of the fundamentals of fraud detection and investigation techniques.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:



QUESTION 168

An external quality assurance review which was authorized by the chief audit executive (CAE) indicated significant findings from the Standards. To whom should the final results of the quality assurance review be reported?

- A. Confidentially to the CAE only
- B. The CAE with copies to the board and senior management.
- C. To the board with copies to the external auditor or regulatory oversight body.
- D. To the senior management with a copy to the board.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 169

Which of the following topics would a chief audit executive most likely include with their report to the board?

- A. The status of labor contract negotiations at the largest manufacturing plant.
- B. A significant level of senior management turnover throughout the organization.
- C. A recent management hire to oversee labor concerns.
- D. Analyses of recent increases in overtime.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 170

An organization's sales professionals are potentially abusing the use of cellular phones, resulting in an alarming increase in telephone expenses. Which of the following controls is least likely to curb this abuse?

- A. Developing periodic reports to management that show type, length, and number of calls per sales professional, with related totals and comparisons.
- B. Requiring sales professionals to pay monthly cellular phone bills and subsequently submit only business calls for reimbursement using an expense report process.
- C. Requiring sales managers to approve monthly bills prior to payment, explain budget variances, and explain increases from previous periods.
- D. Requiring authorization of the cellular phone bill payment by the manager of the telecommunications department.

Correct Answer: D

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 171

During the planning phase of an audit of suspected overbilling on contracts for security services, an internal auditor should perform all of the following except:

- A. Interview an official of the security services company to determine the cause of recent increases in billings for services.
- B. Interview the manager who requested the audit engagement.
- C. Obtain a copy of the contract between the two organizations.

D. Prepare an engagement program.

Correct Answer: A
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 172

In preparing for an audit of the footwear division of a major retail organization, an internal auditor gathered the following information about the organization's stores:

	All Stores	Northeast Region	Southwest Region	Central Region
Average sales per store	\$736,000	\$840,000	\$760,000	\$630,000
Average cost of goods sold per store	\$375,000	\$420,000	\$325,000	\$395,000
Number of stores	48	13	18	17
Average square feet per store	1800	2200	1850	1550
Average sales per full-time employee	\$137,000	\$152,000	\$140,000	\$122,000
Average wage-related expense per store	\$98,000	\$102,000	\$82,000	\$112,000
Average net profit per store	\$238,000	\$285,000	\$320,000	\$115,000

In addition to labor costs, the other costs associated with each store are leasing and maintenance expenses. Which of the following is a valid conclusion?

- A. Sales per store are directly related to the size of the store.
- B. Employees are less productive in larger stores.
- C. Gross margin is directly related to the size of the store.
- D. Cost of goods sold is directly related to the size of the store.

Correct Answer: A
Section: Volume C
Explanation

Explanation/Reference:

QUESTION 173

Which of the following internal control weaknesses would an internal auditor most likely detect while reviewing a flowchart that depicts the purchasing function of an organization?

- A. Purchasing policies have not been updated.
- B. The organization is not taking advantage of quantity discounts available from its suppliers.
- C. Payments for goods received have not been authorized at the appropriate level.
- D. Payments to suppliers are made before goods are received.

Correct Answer: D
Section: Volume C
Explanation



Explanation/Reference:

QUESTION 174

An internal auditor pays to participate in the company's annual golf tournament, which is held outside of normal business hours.

The auditor wins the putting contest and is awarded an all-expense-paid weekend vacation.

According to the IIA Code of Ethics regarding objectivity, the auditor's best course of action would be to:

- A. Refuse the prize because the amount is significant.
- B. Accept the prize because the event was held outside of normal business hours.
- C. Refuse the prize because it represents an impairment to objectivity.
- D. Accept the prize because the auditor received no special treatment.

Correct Answer: D
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 175

An internal auditor audited a department store's cash function. Which of the following actions would indicate a lack of due professional care by the auditor?

- A. Based on a well-designed system of internal controls over the cash function, the audit report assured senior management that no irregularities existed.
- B. A flowchart of the entire cash function was developed but only samples of transactions were tested.
- C. The audit report included a well-supported recommendation for a reduction in staff even though such a reduction might adversely impact morale.
- D. The auditor informed appropriate authorities within the organization about suspected wrongdoing but did not inform external authorities.

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:



QUESTION 176

Which of the following would be an appropriate outcome of a quality assurance and improvement program in an internal audit activity?

- 1. Modification of resources.
- 2. Corrections to procedures.
- 3. Changes in processes.
- 4. Implementation of new technology.

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

Correct Answer: D

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 177

Which of the following actions by the internal audit activity provides strong evidence that it is organizationally independent?

- A. It reviews engagement results for evidence of undue influence before releasing the final report.
- B. It requires all internal audit staff to sign annual non-disclosure and potential conflict of interest statements.
- C. It maintains direct interactions with the audit committee or board.
- D. It releases an approved internal audit charter stating that the internal audit activity is independent.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 178

Which of the following statements is correct with regard to risk management?



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- A. The board's responsibility for risk management cannot be assigned to a board committee, such as a board risk committee.
- B. The chief audit executive is accountable to the board for designing, implementing and monitoring the risk management process.
- C. The total process of risk management, which includes a related system of internal control, is the responsibility of the board.
- D. The finance director is responsible for the overall implementation of the risk management process.

Correct Answer: C

Section: Volume C
Explanation

Explanation/Reference:

QUESTION 179

A receiving department receives copies of purchase orders for use in identifying and recording inventory receipts.

The purchase orders list the name of the vendor and the quantities of the materials ordered.

A possible error that this system could allow is:

- A. Payment to unauthorized vendors.
- B. Payment for unauthorized purchases.
- C. Overpayment for partial deliveries.
- D. Delay in recording purchases.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:



QUESTION 180

Which of the following is least likely to be considered material in an audit of a medium-sized organization?

- A. A \$1, 000 overstatement of the accrued-vacation payable account.
- B. A violation of a government statute.
- C. Fraud resulting in a cash loss to the organization.
- D. An underpayment to the employee pension fund.

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 181

Which of the following items of evidence is most valid to support a finding that a public utility's repair crews are sometimes required to work under unsafe conditions?

- A. Videotapes of repair crews working in a situation that is unsafe.
- B. Audio taped testimonials from repair crew members who were required to work under unsafe conditions.
- C. Reports showing increases in the number of days of sick leave for individuals on repair crews.
- D. Written and signed descriptions from repair crew members of the unsafe conditions that they have had to endure.

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 182

Which of the following sources of evidence would be least persuasive regarding potential waste and inefficiency on the part of a contractor?

- A. The contractor's certification that it has not incurred any waste or inefficiencies.
- B. A walk-through of the contractor's manufacturing and development facilities.
- C. An examination of the nature of contract expenses incurred.
- D. A comparison of contract expenses with those of similar projects.

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 183

During a review of a division's operations, an internal auditor notes that sales and customer base are unchanged, while inventory and gross margin have increased significantly. Which of the following audit procedures would be most relevant in substantiating management's assertion that the gross margin increase is due to increased efficiency in manufacturing operations?

- A. Obtain a physical count of inventory.
- B. For a sample of products, compare costs-per-unit this year to those of last year, test cost build-ups, and analyze standard cost variances.
- C. Take a physical inventory of equipment to determine if there were significant changes.
- D. Select a sample of finished goods inventory and trace raw materials cost back to purchase prices in order to determine the accuracy of the recorded raw materials price.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 184

The work papers for an audit of hazardous-materials handling and disposal at an engineering research facility provide evidence that the following procedures were performed.

- Drums of hazardous waste not yet shipped off-site were inventoried. The physical count agreed with the company's inventory records.
- A sample of hazardous-waste shipments received at the disposal site was compared to bills of lading and company records. No errors were detected. ▪

The audit staff observed engineering personnel during the handling of hazardous materials. No company policy violations were noted.

The reconciliation of waste drums to the inventory records provides evidence that:

- A. Hazardous-waste materials were being disposed of as prescribed by company policy.
- B. The amount of hazardous materials being used was accurately recorded.
- C. Records of drums shipped to the waste disposal site were being maintained.
- D. All hazardous-waste drums in inventory were accounted for.

Correct Answer: D

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 185

An internal auditor for a large bank is reviewing the collectability of a loan that is secured by real property. The best evidence of the loan's collectability would be:

- A. A recent independent appraisal of the value of the real property.
- B. A document showing the loan committee's approval of the loan.
- C. The borrower's confirmation of the loan balance.
- D. A properly completed and signed loan application form.

Correct Answer: A
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 186

New credit policies have been implemented in an automated order-entry system to improve the collection of receivables. Sales management has compiled several examples that show decreased sales and delayed order entry, and contends that these examples are a direct result of the new credit-policy constraints. Sales management's data and information provide:

- A. Feedback control data.
- B. Irrelevant and argumentative information.
- C. Evidence that the new credit policies do not meet the stated corporate objective to improve collections.
- D. A statistically valid conclusion about the impact of the new credit policies on customer goodwill.

Correct Answer: A
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 187

Which of the following results from computer assisted audit techniques provides the most significant indication that additional audit work is needed?

- A. Several exact matches were found when vendor and employee addresses were compared.
- B. The sum of credit entries on the bank statement did not equal the sum of collections for the same period.
- C. Sorting the check register file by vendor name identified missing sequences of check numbers.
- D. Matching the accounts payable transaction file with the purchase order request file resulted in many differences between the person requesting the purchase order and the person authorizing payment.

Correct Answer: A
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 188

An internal auditor prepared a workpaper that consisted of a list of employee names and identification numbers as well as the following statement:

- "A statistical sample of 40 employee personnel files was selected to verify that they contain all documents required by company policy 501 (copy attached). No exceptions were noted."
- The auditor did not place any audit verification symbols on this workpaper.

Which of the following changes would most improve the auditor's workpaper?

- A. Use of audit verification symbols to show that each file was examined.
- B. Removal of the employee names to protect their confidentiality.
- C. Justification for the sample size.
- D. Listing of the actual documents examined for each employee.



Correct Answer: C
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 189

When comparing an organization's current performance to that of the prior year, an internal auditor found that:

- Total labor costs had increased.
 - More overtime costs had been incurred.
 - The total number of workers had increased. ▪
- Net income was 10 percent lower.

Based solely on this information, which of the following is a valid conclusion?

- A. Net income per worker decreased.

- B. Wage rates increased.
- C. Worker efficiency decreased.
- D. Total labor hours increased.

Correct Answer: A
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 190

An internal auditor would most likely judge an error in an account balance to be material if the error involves:

- A. A data input function.
- B. A large percentage of net income.
- C. An unverified routine transaction.
- D. An unusual transaction for the company.



Correct Answer: B
Section: Volume C
Explanation

Explanation/Reference:

QUESTION 191

What conclusion can be reached by comparing a random sample of vendor invoices to purchase orders?

- A. No duplicate invoices were received.
- B. No duplicate payments were made.
- C. Invoices were for authorized purchases.
- D. Authorized invoices were paid.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 192

An internal auditor has taken an attributes sample of a bank's existing loan portfolio. Out of a sample of 60 loans, the auditor found:

- Four that were not properly collateralized.
 - Five that were not in compliance with bank policies (other than lack of collateralization).
 - Four that were part of a related-party group, but were set up as separate loan entities.
 - Of the 60 loans selected in the sample, these errors were noted on a total of 10 loans. ▪
- Several loans had multiple problems.

Which of the following conclusions can the auditor reach from these observations?

1. There is sufficient evidence that fraudulent activity is taking place by one or more of the bank's lending officers.
2. The financial statements will be misstated as a result of these actions.
3. There are significant noncompliance audit findings that should be reported.

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

Correct Answer: A

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 193

Which of the following, if observed, would not indicate the need to extend the search for other indicators of fraud in a purchasing department?

- A. The standard of living of one of the purchasing agents has increased.
- B. The internal control structure has significant weaknesses.
- C. The purchasing agents have convinced management to adopt a policy of paying vendors on a more timely basis in order to avoid incurring penalty charges.

D. The cost of goods procured seems to be excessive in comparison with previous years.

Correct Answer: C

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 194

Which of the following might alert an internal auditor to the possibility of fraud in a division?

1. The division is not scheduled for an external audit this year.
2. Sales have increased by 10 percent.
3. A significant portion of management's compensation is directly tied to reported net income of the division.

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



Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 195

A production division received 45 responses to a customer-service survey distributed to 100 purchasing departments randomly selected from all customers who made purchases in the prior 12 months. Which of the following is the most likely reason that the division manager would be concerned about nonresponse bias in this situation?

- A. The sample means and standard errors are more difficult to compute.
- B. Those who did not respond may be systematically different from those who did.
- C. The sample size is too small.
- D. Confidence intervals are narrower.

Correct Answer: B
Section: Volume C
Explanation

Explanation/Reference:

QUESTION 196

An internal auditor is using mean-per-unit sampling to estimate the value of health benefit claims for a period. The auditor's desired precision is \$20, 000. If the achieved precision is \$10, 000, which of the following conditions is implied?



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- A. The value of claims is overstated.
- B. The value of claims is understated.
- C. The standard deviation is smaller than expected.
- D. The standard deviation is larger than expected.

Correct Answer: C
Section: Volume C

Explanation

Explanation/Reference:

QUESTION 197

An internal auditor is designing a sampling plan to test the accuracy of daily production reports over the past three years. All of the reports contain the same information except that Friday reports also contain weekly totals and are prepared by managers rather than by supervisors. Production normally peaks near the

end of a month. If the auditor wants to select two reports per month using an interval sampling plan, which of the following techniques reduces the likelihood of bias in the sample?

- A. Estimating the error rate in the population.
- B. Using multiple random starts.
- C. Increasing the confidence level.
- D. Increasing the precision.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 198

Which of the following is a common error made in designing multiple-choice questions in a survey questionnaire?

- A. Unipolar rather than bipolar labels are used for the response categories.
- B. The alternative response categories for the questions are not mutually exclusive.
- C. Likert scaling is used instead of semantic differential scaling.
- D. The question itself uses terms that are very familiar to the respondent.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 199

An internal auditor is checking the accuracy of a computer-printed inventory listing to determine whether the total dollar value of inventory is significantly overstated. Because there is no time or resources to check all items in the warehouse, a sample of inventory items must be used. If the sample size is fixed, which of the following would be the most accurate sampling approach?

- A. Select those items that are most easily inspected.
- B. Employ simple random sampling.
- C. Sample so that the probability of a given inventory item being selected is proportional to the number of units sold for that item.

D. Sample so that the probability of a given inventory item being selected is proportional to its book value.

Correct Answer: D

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 200

Which of the following is not an advantage of face-to-face interviews over electronic surveys?

- A. The response rate is typically higher.
- B. Interviewers can increase a respondent's comprehension of questions.
- C. Survey designers can use a wider variety of question types.
- D. They are less expensive to distribute and compile data.

Correct Answer: D

Section: Volume C

Explanation

Explanation/Reference:



QUESTION 201

An internal auditor used a questionnaire during an interview to gather information about the nature of credit sales processing. The questionnaire did not cover some pertinent information offered by the person being interviewed, and the auditor did not document the potential problems for further investigation. The primary deficiency with the above process is that:

- A. The auditor failed to consider the importance of the information offered.
- B. A questionnaire was used in a situation where a structured interview should have been used.
- C. The use of a questionnaire precluded the auditor from documenting other information.
- D. The engagement program was incomplete.

Correct Answer: A

Section: Volume C

Explanation**Explanation/Reference:****QUESTION 202**

A retail sales company has discontinued a product that normally sold for \$100. During the first month of a sale of the product, a 20 percent discount was given. Later that sale price was reduced by an additional 40 percent. What was the overall discount from the original selling price?

- A. 60 percent.
- B. 52 percent.
- C. 48 percent.
- D. 30 percent.

Correct Answer: B
Section: Volume C

Explanation**Explanation/Reference:****QUESTION 203**

A company produces a product that consists of materials X, Y, and Z. The product is mixed so that:

- The quantity of material X used is one-third more than that of material Y.
- The quantity of material Y used is one-fourth less than that of material Z.

If the company used 24, 000 units of material Z during a period, what is a reasonable estimate of the amount of material X used?

- A. 8, 000
- B. 18, 000C. 24, 000
- D. 32, 000

Correct Answer: C
Section: Volume C

Explanation**Explanation/Reference:**

QUESTION 204

Which of the following is true of a horizontal flowchart as compared to a vertical flowchart?

- A. It provides more room for written descriptions that parallel the symbols.
- B. It brings into sharper focus the assignment of duties and independent checks on performance.
- C. It is usually longer.
- D. It does not provide as broad a picture at a glance.

Correct Answer: B

Section: Volume C

Explanation

Explanation/Reference:

QUESTION 205

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

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 206

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

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 207

Which of the following should be the first step that an internal auditor takes to establish data integrity when building an audit working copy of a large database?

- A. Search for anomalies in the extracted information.
- B. Verify that all required data was downloaded.
- C. Review the data for statistical patterns.
- D. Ensure that the data is efficiently organized within the database.

Correct Answer: B

Section: Volume D

Explanation

Explanation/Reference:



QUESTION 208

Which of the following represents the most useful function of inventory turnover analysis?

- A. Identifying excess inventory, including obsolete inventory.
- B. Determining the best supplier of raw materials based on cost comparison.
- C. Creating new staffing positions for inventory support.
- D. Developing more efficient methods for manufacturing finished products.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 209

Which of the following situations would most likely result in the auditor in charge (AIC) recommending that the staff auditor further investigate non-compliant items?

- A. A staff auditor conducted a test of 25 non-statistical sample items, selected judgmentally, and 5 are not in compliance with organizational policy.
- B. A staff auditor conducted a test of 85 non-statistical sample items, selected randomly, and 5 are not in compliance with organizational policy.
- C. Before the staff auditor conducted a test of statistical sample items, the AIC was already aware of underlying control weaknesses.
- D. A staff auditor conducted a test of statistical sample items, the results of which fall below the acceptable error rate by less than one percentage point.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 210

A chief audit executive (CAE) is planning to issue an annual report concluding on the overall effectiveness of the organization's internal control system. According to the Standards, which of the following is likely the most significant challenge facing the CAE when creating the report?

- A. The opinion must include difficult to measure risks such as the risks of management override of controls, and collusion among dishonest personnel.
- B. The opinion is dependent on complex analyses of numerous internal audit engagements carried out over the prior year.
- C. The opinion is only issued once a year, limiting its usefulness.
- D. Assessing control effectiveness is complicated by inherent risks.

Correct Answer: B

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 211

Which of the following best describes an appropriate form of working paper standardization?

- A. Uniform cross referencing system.
- B. Customized layouts for each specific audit area.
- C. Comprehensive data lists from information databases.
- D. Audit client review and approval.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 212

An internal auditor is assessing the risk of employees falsifying reimbursement requests for business-related meals or travel. Which of the following procedures would the internal auditor most likely perform first?

- A. Review the supplemental documentation provided for a sample of reimbursement requests.
- B. Interview the payroll/accounting supervisor to determine what controls exist to prevent fraud.
- C. Determine whether or not the payroll/accounting department has been subject to regular review.
- D. Establish a flowchart of the payroll/accounting functions that include any controls currently in place.

Correct Answer: D

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 213

An internal auditor is gathering evidence for an organization's internal audit engagement and requests a sample of vendor invoices from the organization. Which of the following is true regarding the reliability of this evidence?

- A. The invoices have zero reliability.
- B. The invoices have low reliability.
- C. The invoices have medium reliability.
- D. The invoices have high reliability.

Correct Answer: C
Section: Volume D

Explanation

Explanation/Reference:

QUESTION 214

Management has decided to invest significant capital in a new and innovative large computer system. They understand that they are one of the first organizations to implement this system, but they believe the benefits outweigh the uncertainty over the performance and reliability of the software. This decision best describes which aspect of risk management?



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- A. Risk appetite.
- B. Risk tolerance.
- C. Residual risk.
- D. Inherent risk.

Correct Answer: A
Section: Volume D
Explanation

Explanation/Reference:

QUESTION 215

An internal auditor is testing the controls of a large and complex food production process where quality assurance is critical. Management provides process charts and documentation, but the auditor quickly determines that this information is incomplete and out of date. Which of the following would be the most appropriate course of action for the auditor to follow?

- A. Use the documentation but meet with the production supervisor to obtain updated information before proceeding.
- B. Amend the engagement objectives recognizing that important information is not available to protect the engagement's integrity.
- C. Defer the audit until management can provide updated charts and documentation as this is their responsibility.
- D. Use the documentation but use observation during the engagement to provide missing information.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 216

COBIT is primarily designed to:

- A. Define auditing standards for information technology auditors.
- B. Satisfy information technology regulatory requirements.
- C. Provide guidance to govern information technology activities.
- D. Assist technology professionals in interpreting technological specifications.



Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 217

Which of the following is the responsibility of an internal auditor?

1. Assist operating management in implementing audit recommendations.
2. Provide management with value-added analysis to improve operations.
3. Become an advocate for changes to the internal audit activity charter.
4. Disclose non-financial risks that may be identified during the course of an engagement.

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

Correct Answer: B

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 218

Which of the following is accomplished by the internal audit charter?

- A. It establishes the audit committee's position within the organization.
- B. It authorizes access to records, personnel and physical properties relevant to the performance of engagements.
- C. It defines the scope of internal and external audit activities.
- D. It states the nature of the chief audit executive's administrative reporting relationship with the board.

Correct Answer: B

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 219

A product manager occasionally overrides established purchasing policies in order to expedite the introduction of new products in a competitive industry. The manager's overrides are:

- A. Unacceptable as they are not consistent with the purchasing policy.
- B. Only acceptable if the override is within the manager's spending limit.
- C. Only acceptable if a policy governing such overrides is in place and they are reported.
- D. Acceptable due to the highly competitive nature of the industry.

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 220

An internal auditor for a large computer company suspects that returned computer systems are being repackaged as new products and shipped to other customers before the defects have been repaired. Which of the following would be the most persuasive piece of evidence in support of the auditor's suspicions? A. Credit memos issued after year end for goods shipped before year end.

- B. Evidence of returned goods in the shipping and receiving area.
- C. An unusual number of customer complaints.
- D. The results of a complete physical inventory taken at year end.

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:



QUESTION 221

While conducting an audit, an internal auditor notices an unusual increase in sales among a small number of units within the organization. The units also experienced persistent negative cash flows despite reported earnings and earnings growth. Which type of fraud do the auditor's findings most likely indicate?

- A. Employee collusion with customer organizations.
- B. Improper asset valuation.
- C. Inventory theft.
- D. Fictitious revenues.

Correct Answer: D

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 222

Which fraudulent act is designed primarily to benefit the organization?

- A. Fictitious sale or assignment of assets.
- B. Authorization of payment for hours not worked.
- C. Theft or misappropriation of funds.
- D. Acceptance of bribes or kickbacks.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 223

An internal auditor is testing whether payments to outside contractors have been charged to the proper account. Which of the following sampling methods would be most useful in completing this task?

- A. Haphazard sampling.
- B. Probability-proportional-to-size sampling.
- C. Attribute sampling.
- D. Judgmental sampling.



Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 224

A fast-food company is developing a computer simulation involving arrival time at a drive-through restaurant. The distribution for arrival times is:
Time

Single-Digit Random

Between Arrivals

Probability
Number Assigned

2 minutes

0.1

0

3 minutes

0.2

1, 2

4 minutes

0.3

3, 4, 5

5 minutes

0.4

6, 7, 8, 9

Six random numbers are selected to represent the arrival of six cars: 1, 6, 9, 0, 5, 6.

What is the mean time between arrivals in this run of the simulation model?

- A. 2 minutes.
- B. 3 minutes.
- C. 4 minutes.
- D. 5 minutes.

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 225

An organization has developed a model to determine the most profitable rate of production. The organization varies the cost of labor in the model to determine how much the changes affect the optimal production level. Which type of analysis does this scenario demonstrate?

- A. Forecast.

- B. Sensitivity.
- C. Critical path.
- D. Decision.

Correct Answer: B
Section: Volume D

Explanation

Explanation/Reference:

QUESTION 226

Which of the following is an example of a preventive control activity for risk related to pollution caused by waste disposal?

- A. Offering an education program delivered by environmental experts.
- B. Maintaining strict security around environmental department files.
- C. Seeking legal consultation from a firm with experience in environmental law.
- D. Taking periodic samples of the area at risk and logging the results.

Correct Answer: A
Section: Volume D

Explanation

Explanation/Reference:

QUESTION 227

Which of the following statements describes a control weakness?

- A. Purchasing procedures are well designed and are followed even when the purchasing supervisor wishes to direct otherwise.
- 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 a single signature required for purchases over \$1, 000.
- D. The purchasing agent in a personal capacity invests in a publicly-traded mutual fund that lists the stock of one of the company's suppliers in its portfolio.

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 228

What is audit risk?

- A. Internal and external risk factors that exist when there are no controls implemented.
- B. The amount of risk that is reduced through risk management operations.
- C. An incorrect conclusion based on evidence uncovered during an audit.
- D. The risk that remains after management has executed risk management activities.

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 229

Which of the following activities would be most likely to impair the objectivity of an internal auditor?

- A. Performing reviews of procedures for a new information systems application before it is installed.
- B. Benchmarking controls during the development of a new information systems application.
- C. Assisting with the development and installation of a new information systems application.
- D. Developing recommended controls for the use of a new information systems application.

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 230



Line management of a manufacturing operation requests an operational audit. They are seeking recommendations for policies and procedures to enhance control over the operation. What should the internal audit activity do?

- A. Review the effectiveness of current policies and procedures but avoid making control recommendations due to impaired objectivity.
- B. Perform the engagement and make appropriate recommendations for policies and procedures.
- C. Turn down the engagement because recommending controls would impair future objectivity regarding this client.
- D. Turn down the engagement because an operational audit should not review policies and procedures.

Correct Answer: B

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 231

Which of the following roles, if undertaken by an internal auditor, would have the greatest potential for conflict with the Standards regarding objectivity?



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- A. IT system designer.
- B. Product development team consultant.
- C. Ethics advocate.
- D. External audit liaison.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 232

The internal audit staff lacks the expertise to perform a specific activity when auditing an organization. Which of the following individuals is not an appropriate choice to perform this task?

- A. A consultant from an outside firm.
- B. An expert within the department being audited.
- C. A researcher affiliated with a college or university.
- D. A specialist from the staff of a government agency.

Correct Answer: B

Section: Volume D

Explanation

Explanation/Reference:



QUESTION 233

For a bank handling large amounts of cash, which of the following types of control would be the most effective to use?

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

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 234

An internal audit activity has made a preliminary determination that a division of the organization has employed improper accounting practices.

Upon being informed, the head of the organization instructs the chief audit executive (CAE) to cease the investigation and to withhold the information from external auditors.

Which course of action should the CAE follow?

- A. Report the communication to the organization's general counsel.
- B. Report the instruction to the chairperson of the audit committee.
- C. Inform the head of the organization that the investigation will continue as planned.
- D. Inform the external auditors of the findings and the mandate to stop investigating.

Correct Answer: B

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 235

Which of the following would be outside the scope of acquiring and developing human resources for an internal audit department?

- A. Requiring audit staff to participate in continuing education activities.
- B. Writing job descriptions for audit staff, audit managers, and other auditing positions.
- C. Conducting individual counseling sessions regarding professional development and performance.
- D. Evaluating auditors' compliance with standards and level of audit effectiveness.

Correct Answer: D

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 236

Which of the following statements about risk assessment is true?

- A. Risk assessment focuses on the quantitative evaluation of exposures.

- B. Risk assessment evaluates risk both on an inherent and residual basis.
- C. Risk assessment determines the organization's tolerance for exposure.
- D. Risk assessment is the amount of inherent risk in a separately identifiable business entity.

Correct Answer: B
Section: Volume D
Explanation

Explanation/Reference:

QUESTION 237

Which of the following statements regarding an internal auditor's responsibility for detecting fraud is not correct?

- A. The auditor should have sufficient knowledge to detect red flags.
- B. The auditor may obtain assistance from outside experts in areas where the auditor is not sufficiently proficient.
- C. The auditor should identify control weaknesses which could allow fraud to occur.
- D. The auditor should detect fraud before recommending a fraud investigation should take place.

Correct Answer: D
Section: Volume D

Explanation

Explanation/Reference:

QUESTION 238

Which of the following methods is not valid for completing continuing professional education hours?

- A. Attending technical session meetings held by state auditing organizations.
- B. Completing all audit engagements in accordance with the Standards.
- C. Publishing an article on the organization's internal audit department.
- D. Participating in a formal in-house training program.

Correct Answer: B
Section: Volume D

Explanation

Explanation/Reference:

QUESTION 239

What information should the internal quality assessment of the internal audit activity communicate to the chief audit executive?

- A. Detailed objectives for internal audit engagements.
- B. Confirmation that past audit recommendations have been implemented.
- C. Evaluation of the adequacy of internal audit policies and procedures.
- D. Performance appraisals of the internal audit staff.

Correct Answer: C

Section: Volume D

Explanation

Explanation/Reference:



QUESTION 240

Which of the following actions would compromise an internal auditor's objectivity?

- A. Preparing bank reconciliations.
- B. Reviewing procedures before they are implemented.
- C. Auditing an activity for which the auditor had responsibility two years ago.
- D. Receiving a promotional pen from a supply available to all employees.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 241

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

- A. Excluding an issue in the final audit report after management has resolved the issue.
- B. Reporting information that could be damaging to the organization, at the request of a court of law.
- C. Failing to return a free promotional pen to a vendor related to the audit activity.
- D. Declining an audit engagement for which the auditor does not have the necessary experience or training.

Correct Answer: A

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 242

Which of the following statements correctly describes how workpaper standards can improve the efficiency of internal audit operations?

- A. They require supervisors to provide written confirmation of the workpapers they review.
- B. They grant external parties approved by management access to workpapers.
- C. They mandate the workpaper retention period.
- D. They allow the design and content to vary depending on the nature of the engagement.

Correct Answer: D

Section: Volume D

Explanation

Explanation/Reference:

QUESTION 243

Which of the following controls is not appropriate for sales in a manufacturing organization?

- A. Customers' orders are recorded promptly.
- B. Goods shipped are matched with valid customer orders.
- C. Goods returned are inspected for damage by the receiving department for proper disposition.
- D. Sales department approval is required for credit sales transactions.

Correct Answer: D
Section: Volume E

Explanation

Explanation/Reference:

QUESTION 244

A manufacturing organization discovers that the waste water released has failed to meet permitted limits.

Which control function will be least effective in correcting the issue?

- A. Performing a chemical analysis of the water, prior to discharge, for components specified in the permit.
- B. Posting signs that tell employees which substances may be disposed of via sinks and floor drains within the facility.
- C. Diluting pollutants by flushing sinks and floor drains daily with large volumes of clean water.
- D. Establishing a preventive maintenance program for the pretreatment system.

Correct Answer: C
Section: Volume E



Explanation

Explanation/Reference:

QUESTION 245

A computer system automatically locks a user's account after three unsuccessful attempts to log on.

Which type of control does this scenario represent?

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

Correct Answer: B
Section: Volume E

Explanation

Explanation/Reference:

QUESTION 246

An internal audit activity (IAA) provided assurance services for an activity it was responsible for during the preceding year.

As a result, which IIA Code of Ethics principle is presumed to be impaired?



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- A. Competence.
- B. Flexibility.
- C. Objectivity.
- D. Independence.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 247

According to the Standards, for how long should internal auditors who have previously performed or had management responsibility for an operation wait to become involved in future internal audit activity with that same operation?

- A. Three months.
- B. Six months.

- C. One year.
- D. Two years.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 248

The chief audit executive (CAE) has been asked to manage the regulatory compliance function for the organization's retail store operations. Store operations are included in the annual audit plan.

Which of the following strategies best fulfills the requirements of the Standards regarding these audits?

- A. The scope of store operations audits should exclude compliance.
- B. Store operations audits can be fully executed with appropriate disclosure to the board.
- C. Store operations audits should be performed by an external service provider.
- D. A store operations compliance audit should be performed by a staff internal auditor under the direction of the CAE.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 249

Suspecting fraud, the chief financial officer (CFO) asked the internal audit activity to investigate a significant increase in travel related expenditures. Work was performed by a qualified internal auditor. Following the completion of the engagement, the chief audit executive (CAE) reported to the CFO that no violations were found and no fraud had occurred.

According to the Standards, which of the following principles did the CAE violate?

- A. Due professional care.
- B. Individual objectivity.

- C. Proficiency.
- D. Organizational independence.

Correct Answer: A

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 250

A new chief audit executive (CAE) of a large internal audit activity (IAA) is dissatisfied with the current amount and quality of training being provided to the staff and wishes to implement improvements. According to IIA guidance, which of the following actions would best help the CAE reach this objective?

- A. Require that all staff obtain a minimum of two relevant audit certifications.
- B. Perform a gap analysis of the IAA's existing knowledge, skills and competencies.
- C. Engage a consultant to benchmark the IAA's training program against its peers.
- D. Assign one experienced manager to better coordinate staff training and development activities.

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 251

According to IIA guidance, which of the following individuals would best be considered independent for the purpose of participating in an external assessment of the quality assurance and improvement program for an internal audit activity (IAA)?

- A. A former employee knowledgeable of the IAA who resigned three years earlier from the organization.
- B. A competent employee of an independent external organization that provides co-sourcing services to the IAA.
- C. An employee in an affiliated organization who has never worked directly with the IAA.
- D. An employee in the parent organization who has not had any previous contact with the IAA.

Correct Answer: A

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 252

The results of an internal audit activity's (IAA) quality assurance and improvement program are favorable and an external assessment was completed within the last five years. Which of the following statements may the IAA use to describe its work?

- A. "Completed with the advance certification of the External Assessors Association for Auditing Review."
- B. "Conforms with the International Standards for the Professional Practice of Internal Auditing."
- C. "Certified 100% accuracy, per the International Standards of External Assessment."
- D. "Compliant with all domestic and international legal statutes, and certified quality assured for ten years."

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 253

Why are preventative controls generally preferred to detective controls?

- A. Because preventive controls promote doing the right thing in the first place, and lessen the need for corrective action.
- B. Because preventive controls are more sensitive and identify more exceptions than detective controls.
- C. Because preventive controls include output procedures, which cover the full range of possible reviews, reconciliations and analysis.
- D. Because preventive controls identify exceptions after-the-fact, allowing them to be used after the entire review is complete and therefore finding exceptions that detective controls may have missed.

Correct Answer: A

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 254

Which of the following would be considered a preventive control?

- A. A library control log.
- B. A review of exception reports.
- C. A password lock on a server.
- D. A software scan of financial records for irregularities.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 255

Which of the following are components of the COSO enterprise risk management framework?

1. Objective setting.
2. External environment.
3. Data collection.
4. Control activities.

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



Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 256

According to IIA guidance, which of the following is the best example of a system application control?

- A. A physical security control over a data center.
- B. A system development life cycle control.
- C. A program change management control.

D. An input control over data integrity.

Correct Answer: D

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 257

Which type of objectives can best be described as broad goals that promote the effective and efficient use of resources?

- A. Strategic objectives.
- B. Operational objectives.
- C. Reporting objectives.
- D. Compliance objectives.

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:



QUESTION 258

An internal audit manager of a furniture manufacturing organization is planning an audit of the procurement process for kiln-dried wood. The procurement department maintains six procurement officers to manage 24 different suppliers used by the organization.

Which of the following controls would best mitigate the risk of employees receiving kickbacks from suppliers?

- A. The periodic rotation of procurement officers' assignments to supplier accounts.
- B. A pre-award financial capacity analysis of suppliers.
- C. An automated computer report, organized by supplier, of any invoices for the same amount.
- D. Periodic inventories of kiln-dried wood at the organization's warehouse.

Correct Answer: A

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 259

During an internal audit, an organization's processing department is found to have incidences of both duplicate invoices and notices from customers that purchased goods were not received. The department under review insists that some of these reports are false and that others were isolated oversights due to understaffing.

Which of the following tests would best help the internal auditor detect fraudulent activity?

- A. Check inventory levels.
- B. Search for gaps in check numbers.
- C. Compare vendor summaries.
- D. Review raw material purchase quantities.

Correct Answer: A

Section: Volume E

Explanation

Explanation/Reference:



QUESTION 260

Which of the following statements is true regarding the use of non-statistical sampling in auditing control tests?

- A. It considers tolerable deviation rate more effectively than does statistical sampling.
- B. Sampling risk will be accurately quantified through non-statistical sampling.
- C. Non-statistical sample results must be projected to the population.
- D. Lesser evidence is required to support a conclusion than for statistical sampling.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 261

During an internal audit, the internal auditor compares the employee turnover rate in the area being audited with the employee turnover rate in the organization as a whole.

This is an example of which of the following analytical auditing procedures?

- A. Reasonableness test.
- B. Regression analysis.
- C. Benchmarking.
- D. Trend analysis.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 262

When internal auditors are preparing workpapers for the testing stage of an engagement, which of the following guidelines should be observed?

1. Include copies of all client files that were reviewed for the audit.
2. Avoid the use of professional, industry-appropriate jargon and technical terms.
3. Indicate the original sources of all data and information used in the workpapers.
4. Leave blank space for cross-references to be completed during the post-audit process.

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

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 263

During an account receivables audit, an internal auditor found a significant number of input errors resulting in a \$500, 000 balance understatement.

Which of the following is the most important question the internal auditor should ask to develop an appropriate recommendation for this finding?

- A. Who?
- B. How?C. Why?
- D. When?

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 264

Which of the following is not a standard technique that the chief audit executive (CAE) would use to provide evidence of supervisory review of working papers?



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- A. The CAE initials and dates every working paper after it has been reviewed.
- B. The CAE completes an engagement working paper checklist.
- C. The CAE prepares a memorandum discussing the results of the working paper review.
- D. The CAE utilizes an external third party to make an objective recommendation after each working paper review.

Correct Answer: D

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 265

Allegations have been made that an organization's share price has been manipulated.

Which of the following would provide an internal auditor with the most objective evidence in this case?

- A. Major shareholders of the organization.
- B. Large customers of the organization.
- C. Former members of management.
- D. Former financial consultants.

Correct Answer: D

Section: Volume E

Explanation

Explanation/Reference:



QUESTION 266

According to the IIA guidance, who is responsible for periodically assessing the internal audit activity?

- A. The board.
- B. The chief audit executive.
- C. Senior management.
- D. The external auditors.

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 267

An internal auditor finds during an engagement that payment for the organization's general insurance policy is two months overdue. The issue is informally mentioned to the finance department which immediately submits the invoice for payment. The auditor decides to exclude this finding from the final audit report as the oversight was immediately corrected and there were no consequences because of this late payment.

Which of the following rules of conduct as described in the IIA Code of Ethics, did the auditor fail to uphold?

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

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 268

What type of risk management strategy is being employed when an organization installs two firewalls to provide protection from unauthorized access to the network?

- A. Diversifying the risk that network access will not be available to legitimate, authorized users.
- B. Accepting the risk that there may be attempts at unauthorized access to the network.
- C. Avoiding the risk of having a direct network connection to un-trusted networks.
- D. Sharing the risk that either firewall could be compromised by hackers.

Correct Answer: A

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 269

If an engagement client disputes that a specific action or process is within the scope of the internal audit activity, what would be the most appropriate way for the internal audit activity (IAA) to respond?

- A. Terminate the audit engagement in full because an operational audit will not be productive without the client's cooperation.
- B. Terminate only the specific action or process with which the client disagrees and work to determine a substitute function that will not impede further IAA or the client-audit relationship.
- C. Refer the client to the IAA's charter and the approved yearly audit plan, which includes the areas designated for audit in the current time period.
- D. Seek the approval of senior management or the board in mediation, allowing an overseer to clarify the scope of the audit engagement for the client.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 270

This chief audit executive (CAE) engaged an internal auditor to consult on an organization's complex information technology system. Shortly after beginning the engagement, the auditor unexpectedly resigned. Unfortunately, this auditor was the only available auditor with the necessary expertise. The CAE will not be able to hire someone with similar expertise in time to meet a regulatory deadline.

Which of the following would be the best course of action for the CAE to take?

- A. Continue with the engagement in order to meet the regulatory deadline, but highlight areas in the final report that might need to be revised in the future.
- B. Ask that a senior member of the organization's IT department with the required systems expertise join the audit team to assist in completing the engagement.
- C. Delay the engagement and inform the board of the situation, asking them to provide acceptable alternatives for completing the engagement.
- D. Remove the planned engagement from the audit plan and explain to senior management the problems with moving forward without an auditor with the necessary expertise.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 271

A candidate has applied for an entry level internal audit position. The candidate holds a CISA (Certified Information Systems Auditor) designation, and has six months of audit experience, but limited knowledge of accounting principles and techniques. According to the IIA guidance, which of the following is the most relevant reason for the chief audit executive to consider this candidate?

- A. Other internal auditors possess sufficient knowledge of accounting principles and techniques.
- B. The candidate's information systems knowledge and real-world experience in internal auditing.
- C. Accounting skills can be learned over time with appropriate training.
- D. An entry level position does not require expertise in any particular area.

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 272

Which of the following is the most effective strategy to manage the risk of foreign exchange losses due to sales to foreign customers?

- A. Hire a risk consultant.
- B. Implement a hedging strategy.
- C. Maintain a large foreign currency balance.
- D. Insist that customers only pay in a stable currency.



Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 273

Which of the following is not a role of the internal audit activity in facilitating risk identification and evaluation?

- A. Evaluating risk management processes.
- B. Recommending accountability for risk management.
- C. Providing assurance that risks are evaluated correctly.
- D. Supporting managers to identify ways to mitigate risks.

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 274

Which of the following is a second line of defense in effective risk management and control?

- A. Purchasing department.
- B. Compliance department.
- C. Credit department.
- D. Internal audit department.

Correct Answer: B

Section: Volume E

Explanation

Explanation/Reference:



QUESTION 275

An accounts receivable clerk receives cash payments, posts the payments to customer accounts, and prepares the daily cash deposit. The clerk has been stealing some cash and manipulating the customer payments to hide the theft.

This fraud could be detected with which of the following controls?

- A. Monthly bank reconciliations are performed by the clerk on a timely basis.
- B. Total cash deposits for the month are reconciled to the cash receipts journal.
- C. Names, amounts, and dates on remittance advices are reconciled with the names, amounts, and dates recorded in the cash receipts journal.
- D. Total cash deposits are compared with the bank reconciliation.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 276

Which of the following conditions is the most likely indicator of fraud?

- A. Commissions are paid based on verified increases to sales.
- B. Departmental reports are consistently issued in an untimely manner.
- C. A manager regularly assumes subordinates' duties.
- D. Lower earnings occur during the industry's down cycle.

Correct Answer: C

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 277

Which of the following would not be a red flag for fraud?



- A. Several recent, large expenditures to a new vendor have not been documented.
- B. A manager has bragged about multiple extravagant vacations taken within the last year, which are excessive relative to the manager's salary.
- C. A weak control environment has been accepted by management to encourage creativity.
- D. New employees occasionally fail to meet established project deadlines due to staffing shortages.

Correct Answer: D

Section: Volume E

Explanation

Explanation/Reference:

QUESTION 278

Which of the following is the most significant disadvantage of using checklists to evaluate internal controls?

- A. They serve as a reminder of what controls should exist in a process.

- B. They require yes/no responses to specific questions, not open-ended responses.
- C. They do not capture all controls that may exist.
- D. They are useful in assessing risk.

Correct Answer: C
Section: Volume E

Explanation

Explanation/Reference:

QUESTION 279

According to IIA guidance, which of the following objectives of an assurance engagement for the organization's risk management process is valid?

- A. All risks have been identified and mitigated.
- B. Risks have been accurately analyzed and evaluated.
- C. All controls are both adequate and efficient.
- D. The board is appropriately addressing intolerable risks.



Correct Answer: B
Section: Volume E

Explanation

Explanation/Reference:

QUESTION 280

An internal audit team is performing an audit of workplace accident claims.

Which of the following actions by the audit team best demonstrates due professional care?

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

Correct Answer: A
Section: Volume F
Explanation

Explanation/Reference:

QUESTION 281

A credit card company detects potential errors in credit card numbers by checking whether all entered numbers contain the correct amount of digits. This is an example of which of the following IT controls?

- A. Logic test.
- B. Check digits.
- C. Data integrity tests.
- D. Balancing control activities.

Correct Answer: A
Section: Volume F
Explanation

Explanation/Reference:



QUESTION 282

Which two of the following are preventive controls in a check disbursement process?

1. Daily reconciliation of the bank account used for check disbursements and prompt follow-up of un-reconciled items.
2. Segregation of the following duties: establishing new vendors, approving checks, and reconciling the bank account.
3. An activity report detailing who accesses the check disbursement system and the nature of any action taken in the system.
4. Evidence of strong access controls ensuring that authorized individuals have access only to the functions related to their responsibilities.



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

Correct Answer: D
Section: Volume F

Explanation

Explanation/Reference:

QUESTION 283

A large trucking organization wants to reduce traffic accidents by improving its system of internal controls.

Which of the following controls is correctly classified?

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

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

Correct Answer: A
Section: Volume F

Explanation

Explanation/Reference:

QUESTION 284

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

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

Correct Answer: A

Section: Volume F

Explanation

Explanation/Reference:

QUESTION 285

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

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

Correct Answer: C

Section: Volume F

Explanation

Explanation/Reference:

QUESTION 286

An organization invests its savings in a volatile stock with the potential for high gains rather than a mutual fund with a lower expected return and lower volatility. This best describes which of the following risk concepts?

- A. Risk identification.
- B. Risk appetite.
- C. Risk capacity.

D. Risk tolerance.

Correct Answer: D
Section: Volume F

Explanation

Explanation/Reference:

QUESTION 287

Which of the following best describes the misdirection of payments on accounts receivable to an employee's bank account?

- A. Fraud open on the books.
- B. Fraud hidden on the books.
- C. Fraud off the books.
- D. Fraud on the balance sheet.

Correct Answer: C
Section: Volume F



Explanation

Explanation/Reference:

QUESTION 288

When auditing the award of a major contract, which of the following should an internal auditor suspect as a red flag for a bidding fraud scheme?

1. Subsequent change orders increase requirements for low-bid items.
2. Material contract requirements are different on the actual contract than on the request for bids.
3. A high percentage of employees are charged to indirect accounts.
4. Losing bidders are hired as subcontractors.

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

Correct Answer: D
Section: Volume F

Explanation

Explanation/Reference:

QUESTION 289

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

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

Correct Answer: C
Section: Volume F

Explanation

Explanation/Reference:



QUESTION 290

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

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

Correct Answer: A
Section: Volume F

Explanation

Explanation/Reference:

QUESTION 291

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

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

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

Correct Answer: C
Section: Volume F

Explanation

Explanation/Reference:

**QUESTION 292**

An internal auditor uses a predefined macro provided in a popular spreadsheet application to verify the present value of the organization's investments. Which of the following is the most appropriate course of action regarding the auditor's use of this functionality?

- A. The auditor should accept the calculations generated by the function, as any further work or documentation would be inefficient.
- B. The auditor should perform a manual recalculation of several results to validate and document the results.
- C. The auditor should review the programming of the macro before its use to ensure that it is appropriate for the required calculations.
- D. The auditor should tabulate the results in the spreadsheet to ensure the macro has generated the correct results for all calculations.

Correct Answer: B
Section: Volume F

Explanation

Explanation/Reference:

QUESTION 293

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

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

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

Correct Answer: D
Section: Volume F

Explanation

Explanation/Reference:

**QUESTION 294**

The chief audit executive (CAE) of a small internal audit activity (IAA) performs all high-risk engagements on the annual audit plan to make use of his knowledge and experience and to maximize the efficient use of audit resources. Which of the following statements is most relevant regarding this practice?

- A. The CAE's work may be reviewed by any other experienced staff member within the IAA.
- B. The CAE's work should be reviewed by an individual with the appropriate background and knowledge.
- C. The CAE may self-review his work, provided he discloses this practice in the final report.
- D. The CAE should avoid performing engagements to ensure he is able to review all audit work objectively.

Correct Answer: B
Section: Volume F
Explanation

Explanation/Reference:

QUESTION 295

According to IIA guidance, which of the following is not a responsibility of the chief audit executive pertaining to documenting information to support internal audit engagement results and conclusions?

- A. Rating each engagement record to assess its relevance and accessibility for the organization's board.
- B. Controlling access to engagement records, including access by senior management.
- C. Developing retention requirements for engagement records that are consistent with organizational guidelines.
- D. Forming policies governing the custody and retention of consulting engagement records before their release to other parties.

Correct Answer: A

Section: Volume F

Explanation

Explanation/Reference:

QUESTION 296

An internal auditor is using a spreadsheet application to review a cash flow forecast prepared by management.

Which of the following correctly identifies the type of evidence this information represents?

- A. Competent, corroborative evidence of future working capital requirements.
- B. Sufficient, analytical evidence of the cash flow position at a given point of time in the future.
- C. Competent, documentary evidence of future cash flow changes within the organization.
- D. Sufficient, circumstantial evidence of the future solvency of the organization.

Correct Answer: C

Section: Volume F

Explanation

Explanation/Reference:

QUESTION 297

According to IIA guidance, the results of a formal quality assessment should be reported to which of the following groups?

- A. The audit committee and senior management.
- B. The audit committee and the external auditors.
- C. Senior management and management of the audited area.

D. Senior management and the external auditors.

Correct Answer: A
Section: Volume F

Explanation

Explanation/Reference:
QUESTION 298

A medical insurance provider uses an electronic claims-submission process and suspects that a number of physicians have submitted claims for treatments that were not performed. Which of the following control procedures would be most effective to detect this type of fraud?

- A. Require the physician to submit a signed statement attesting that the treatments had been performed.
- B. Send confirmations to the physicians, requesting them to verify the exact nature of the claims submitted to the insurance provider.
- C. Develop an integrated test facility and submit false claims to verify that the system is detecting such claims on a consistent basis.
- D. Use computer software to identify abnormal claims based on the insured's age and medical history.

Correct Answer: D
Section: Volume F



Explanation

Explanation/Reference:

QUESTION 299

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

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

Correct Answer: D
Section: Volume F
Explanation

Explanation/Reference:

QUESTION 300

A new director was hired to lead the internal audit activity at a small start-up company. Which of the following assignments would impair the director's independence?

- A. Preparing the financial statements for the company's defined contribution plan.
- B. Performing a pre-implementation review of the company's payroll application.
- C. Providing the COBIT framework as a possible IT management tool.
- D. Reviewing the company's policy for foreign currency translation adjustments for compliance with accounting standards.

Correct Answer: A

Section: Volume F

Explanation

Explanation/Reference:



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