

# IIA

## Exam Questions IIA-CIA-Part1

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



#### NEW QUESTION 1

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

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

**Answer: C**

#### NEW QUESTION 2

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.

**Answer: D**

#### NEW QUESTION 3

According to the COSO enterprise risk management (ERM) framework, which of the following is not part of the new paradigm in ERM?

- A. Assessing the risk factors.
- B. Aligning risk appetite and strategy.
- C. Enhancing risk response decisions.
- D. Reducing operational surprises and losses.

**Answer: A**

#### NEW QUESTION 4

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

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

**Answer: C**

#### NEW QUESTION 5

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

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

**Answer: B**

#### NEW QUESTION 6

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

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

**Answer: B**

#### NEW QUESTION 7

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

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

**Answer: A**

#### NEW QUESTION 8

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

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

**Answer: D**

#### NEW QUESTION 9

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

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

**Answer: A**

#### NEW QUESTION 10

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

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

**Answer: A**

#### NEW QUESTION 10

During an audit, the client questions the internal audit activity's authority to perform procedures over fraud allegations. According to IA guidance, which of the following would provide the most relevant support to respond to the client's concerns?

- A. Definition of Internal Auditing.
- B. IA Standards.
- C. Internal audit charter.
- D. The IIA's Code of Ethics.

**Answer: C**

#### NEW QUESTION 12

According to IIA guidance, which of the following statements describes one of the similarities between assurance and consulting services?

- A. When planning assurance and consulting engagements, internal auditors must consider the strategies and objectives of the activity being reviewed.
- B. Internal auditors determine the engagement objectives, scope, and work program for both assurance and consulting services.
- C. Internal auditors must not provide assurance or consulting services for an activity for which they had responsibility within the previous year.
- D. Both assurance and consulting services generally involve the internal auditor, the area under review, senior management, and the board.

**Answer: A**

#### NEW QUESTION 15

According to COSO, which of the following describes a principle related to the control environment?

- A. The organization identifies and assesses changes that could significantly impact the system of internal control.
- B. The organization establishes appropriate authorities and responsibilities in the pursuit of objectives.
- C. The organization selects and develops control activities that contribute to the mitigation of risks.
- D. The organization performs evaluations to ascertain whether internal control components are present and functioning.

**Answer: B**

#### NEW QUESTION 18

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

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

**Answer: B**

#### NEW QUESTION 20

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

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

**Answer: C**

#### NEW QUESTION 22

Which of the following is the best way to detect fraud?

- A. Conduct anti-fraud training.
- B. Perform background investigations.
- C. Implement process controls.
- D. Activate a whistleblower hotline.

**Answer: D**

#### NEW QUESTION 27

An internal auditor is performing analytical reviews as part of an audit of a supermarket's merchandising department. Because the economy has declined since midyear, the auditor can expect to encounter which of the following?

- A. Higher inventory turnover.
- B. Higher operating margin.
- C. Lower obsolete stock disposal.
- D. Lower sales volume.

**Answer: D**

#### NEW QUESTION 30

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

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

**Answer: D**

#### NEW QUESTION 31

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

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

**Answer: B**

#### NEW QUESTION 33

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

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

**Answer: A**

#### NEW QUESTION 37

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

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

**Answer: B**

#### NEW QUESTION 38

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

- A. Segregation of duties.
- B. Exception reports.

- C. Incentive compensation plans.
- D. Automated reconciliations.

**Answer: C**

**NEW QUESTION 41**

Which of the following would be the most important consideration by the internal audit activity when selecting employees to perform an internal quality assessment?

- A. Their understanding of auditing standards.
- B. Previous experience working with the internal audit activity.
- C. Their reporting line within the organization.
- D. The nature of their regular duties and responsibilities.

**Answer: A**

**NEW QUESTION 46**

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

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

**Answer: C**

**NEW QUESTION 47**

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

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

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

**Answer: A**

**NEW QUESTION 52**

According to COSO, which of the following is not considered one of the components of an organization's internal environment?

- A. Authority and responsibility to resolve issues.
- B. Framework to plan, execute and monitor activities.
- C. Integrated responses to multiple risks.
- D. Knowledge and skills needed to perform activities.

**Answer: C**

**NEW QUESTION 53**

Which of the following would be considered a violation of The IIA's mandatory guidance on independence?

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

**Answer: B**

**NEW QUESTION 55**

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

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

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

**Answer: B**

#### NEW QUESTION 59

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

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

**Answer: B**

#### NEW QUESTION 60

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

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

**Answer: C**

#### NEW QUESTION 63

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

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

**Answer: D**

#### NEW QUESTION 67

An internal auditor completed an audit of a bank's loan department and found all significant risks to be managed adequately through effective internal controls. Which of the following would be an appropriate conclusion to report to management?

- A. The residual risk is lower than or equal to the risk appetite.
- B. The residual risk is higher than or equal to the risk appetite.
- C. The inherent risk is lower than or equal to the risk tolerance.
- D. The inherent risk is higher than or equal to the risk tolerance.

**Answer: A**

#### NEW QUESTION 72

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.

**Answer: A**

#### NEW QUESTION 73

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

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

**Answer: A**

#### NEW QUESTION 77

Given the highly technical and legal nature of privacy issues, which of the following statements best describes the internal audit activity's responsibility with regard to assessing an organization's privacy framework?

- A. If an organization does not have a mature privacy framework, the internal audit activity should assist in developing and implementing an appropriate privacy framework.
- B. Because the audit committee is ultimately responsible for ensuring that appropriate control processes are in place to mitigate risks associated with personal information, the internal audit activity is
- C. required to conduct privacy assessments.
- D. The internal audit activity may delegate to nonaudit IT specialists the responsibility of determining whether personal information has been secured adequately and data protection controls are sufficient.

E. The internal audit activity should have appropriate knowledge and competence to conduct an asses.....framework.

**Answer: D**

**NEW QUESTION 78**

Internal auditors must exercise due professional care by considering which of the following?

- \* 1. Cost of assurance in relation to potential benefits.
- \* 2. Adequacy and effectiveness of governance, risk management, and control processes.
- \* 3. Management's competency level in the area being evaluated.
- \* 4. Probability of significant errors, fraud, or noncompliance.

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

**Answer: C**

**NEW QUESTION 79**

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

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

**Answer: D**

**NEW QUESTION 83**

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

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

**Answer: D**

**NEW QUESTION 86**

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

- A. An internal auditor assessed the effectiveness of controls over payroll software, which he had helped implement with a previous employer.
- B. An internal auditor participated in an audit of controls around absenteeism, despite providing some consultation on controls in this area earlier in the year.
- C. An internal auditor performed an assurance engagement for the effectiveness of accounts payable access controls, one of which he previously helped to design.
- D. An internal auditor, previously employed in the quality assurance operations area, performed a consulting engagement for the operations manager.

**Answer: C**

**NEW QUESTION 89**

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

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

**Answer: D**

**NEW QUESTION 90**

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

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

**Answer: D**

**NEW QUESTION 93**

Which of the following statements is true regarding assurance services provided to clients outside of the organization?

- A. Assurance services for outside clients are not covered under the internal audit charter.
- B. Assurance services for outside clients must be approved on a case-by-case basis by the board of directors.
- C. The nature of assurance services for outside clients should be defined in the internal audit charter.
- D. The nature of assurance services for outside clients is the same as for internal clients.

**Answer: C**

#### **NEW QUESTION 94**

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

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

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

**Answer: A**

#### **NEW QUESTION 98**

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

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

**Answer: D**

#### **NEW QUESTION 101**

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

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

**Answer: B**

#### **NEW QUESTION 105**

The manager for an organization's accounts payable department resigned her post in that capacity. Three months later, she was recruited to the internal audit activity and has been working with the audit team for the last eight months. Which of the following assignments would the newly hired internal auditor be able to execute without any impairments to independence or objectivity?

- A. An operations audit of the accounts payable department.
- B. A consulting engagement related to a new accounts payable optimization initiative.
- C. A review of the employees' sports club finances, which are overseen by the chief audit executive.
- D. An assurance review for a sales program on which she previously provided consultation.

**Answer: C**

#### **NEW QUESTION 109**

Non-statistical sampling does not require which of the following?

- A. The sample to be representative of the population.
- B. The sample to be selected haphazardly.
- C. A smaller sample size than if selected using statistical sampling.
- D. Projecting the results to the population.

**Answer: C**

#### **NEW QUESTION 114**

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

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

**Answer: D**

#### **NEW QUESTION 119**

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

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

**Answer: B**

#### **NEW QUESTION 123**

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

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

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

**Answer: B**

#### **NEW QUESTION 126**

The internal audit activity is planning a procurement audit and needs to obtain a thorough understanding of the subcontracting process, which can involve multiple individuals in multiple countries.

Which of the following internal audit tools would be most effective to document the process and the key controls?

- A. Internal control checklist.
- B. Procurement employee survey.
- C. Cross-functional flow chart.
- D. Segregation of duties matrix.

**Answer: C**

#### **NEW QUESTION 127**

An internal auditor who is carrying out an engagement to review controls related to corporate tax reporting must possess which of the following competencies?

- \* 1. Proficiency in analyzing key IT risks and controls.
- \* 2. The ability to recognize significant deviations from good business practices.
- \* 3. Knowledge of key indicators of fraud in tax reporting.
- \* 4. The ability to recognize the existence of problems related to tax accounting.

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

**Answer: B**

#### **NEW QUESTION 132**

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

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

**Answer: B**

#### **NEW QUESTION 133**

An internal audit activity includes in its audit reports the assertion that its work is performed in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). A recent external quality assessment concluded that the internal audit activity had substantial deficiencies that impact its overall operations. According to IIA guidance, which of the following is the most appropriate action for issuing future audit reports?

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

**Answer: B**

#### **NEW QUESTION 137**

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.

**Answer: D**

#### **NEW QUESTION 139**

A government agency maintains a system of internal control, according to the COSO model, and has made a change to its employee performance reviews and rewards program. This change relates to which of the following components of COSO's internal control framework?

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

**Answer: A**

#### **NEW QUESTION 140**

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

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

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

**Answer: C**

#### **NEW QUESTION 142**

Which of the following is a requirement for an assurance engagement that may not be for a consulting engagement?

- A. The internal audit activity has to ensure team members' objectivity is not impaired.
- B. Auditors cannot participate in an assurance engagement of a function for which they previously performed a consulting engagement.
- C. The scope and objective of the engagement is agreed upon based on the engagement client's needs.
- D. The internal audit activity must ensure management actions have been implemented effectively or risk accepted.

**Answer: B**

#### **NEW QUESTION 145**

Forty-five percent of an organization's customer payments are submitted online. Eight percent of online payments are rejected. Executive management decides to outsource its online payment services to a contractor that will assume 75 percent of the total value of rejected payments. The organization estimates \$1.25 million customer payments due during the contract period.

Which of the following represents the organization's residual risk for online customer payments due?

- A. \$11, 250
- B. \$25, 000
- C. \$33, 750
- D. \$45, 000

**Answer: A**

#### **NEW QUESTION 150**

The chief audit executive (CAE) is planning to conduct an internal assessment of the internal audit activity (IAA). Part of this assessment will include benchmarking. According to IIA guidance, which of the following qualitative metrics would be appropriate for the CAE to use?

- \* 1. Average client customer satisfaction score for a given year.
- \* 2. Client survey comments on how to improve the IAA.
- \* 3. Auditor interviews once an audit has been completed.
- \* 4. Percentage of audits completed within 90 days.

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

**Answer: C**

#### **NEW QUESTION 151**

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.

**Answer: C**

**NEW QUESTION 154**

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

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

**Answer: C**

**NEW QUESTION 158**

According to The IIA's Code of Ethics, which of the following is true?

- A. Confidentiality requires that auditors disclose all material facts known to them.
- B. Integrity requires that auditors perform internal audit services in accordance with the Standards.
- C. Objectivity requires that auditors perform their work with honesty, diligence, and responsibility.
- D. Confidentiality requires that auditors be prudent in the use and protection of client information.

**Answer: D**

**NEW QUESTION 162**

Which of the following is most likely to function as a directive control?

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

**Answer: B**

**NEW QUESTION 166**

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

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

**Answer: A**

**NEW QUESTION 171**

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

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

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

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

**Answer: D**

**NEW QUESTION 172**

According to the COSO enterprise risk management framework, which of the following best describes the activity that helps ensure risk responses are carried out effectively?

- A. Objective setting.
- B. Control activities.
- C. Information and communication.
- D. Event identification.

**Answer: B**

**NEW QUESTION 176**

A chief audit executive (CAE) is selecting an internal audit team to perform an audit engagement that requires a high level of knowledge in the areas of finance, investment portfolio management, and taxation. If neither the CAE nor the existing internal audit staff possess the required knowledge, which of the following actions should the CAE take?

- A. Postpone the audit until the CAE hires internal audit staff with the required knowledge.
- B. Ask the audit committee to decide the course of action.
- C. Select the most experienced auditors in the department to perform the engagement.
- D. Hire consultants who possess the required knowledge to perform the engagement.

**Answer: D**

**NEW QUESTION 178**

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

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

**Answer: D**

**NEW QUESTION 182**

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

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

**Answer: B**

**NEW QUESTION 187**

According to The IIA's Code of Ethics, which of the following statements is true?

- A. When an internal auditor releases required information to a regulator, resulting in a significant loss through fines and penalties for the organization, he fails to add value.
- B. When an internal auditor limits the scope of the audit engagement after learning that management is hiding relevant information, he demonstrates integrity.
- C. When an internal auditor disagrees with the treatment received by workers in the organization's foreign subsidiary and alters the audit program to highlight the issue, he fails to demonstrate objectivity.
- D. When an internal auditor continues with an audit engagement, despite the audit client's claims that the work performed is unnecessary and redundant he fails to demonstrate competency.

**Answer: C**

**NEW QUESTION 188**

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