



Vendor: IIA

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

Version: DEMO

QUESTION 1

Which of the following lists the audit activities in the order in which they would generally be completed during a preliminary survey?

- I. Write detailed audit procedures.
 - II. Identify client objectives, goals, and standards.
 - III. Identify risks and controls intended to prevent associated losses.
 - IV. Determine relevant engagement objectives.
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- A. II, I, IV, III.
 - B. II, III, IV, I.
 - C. III, IV, II, I.
 - D. II, IV, I, III.

Answer: B

QUESTION 2

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

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

Answer: A

QUESTION 3

Which of the following statements regarding segregation of duties is true?

- A. When evaluating an organization's policy on segregation of duties, employee competence does not need to be considered.
- B. An organizational chart provides an accurate definition of segregation of duties.
- C. A restrictive segregation-of-duties policy can help improve an organization's communication.
- D. Policies on segregation of duties in information systems must recognize the difference between logical and physical access to assets.

Answer: D

QUESTION 4

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.

Answer: A

QUESTION 5

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.

Answer: B

QUESTION 6

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.

Answer: D

QUESTION 7

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.

Answer: C

QUESTION 8

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

Answer: C

QUESTION 9

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

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

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

Answer: D

QUESTION 10

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.

Answer: A

QUESTION 11

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.

Answer: B

QUESTION 12

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.

Answer: D

QUESTION 13

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.

Answer: C

QUESTION 14

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.

Answer: C

QUESTION 15

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.

Answer: B

QUESTION 16

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. risk exposures and control issues, to which of the following?

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

Answer: B

QUESTION 17

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.

Answer: B

QUESTION 18

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.

Answer: A

QUESTION 19

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.

Answer: B

QUESTION 20

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.

Answer: A

QUESTION 21

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.

Answer: A

QUESTION 22

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

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

investigation and subsequent reporting, with the chief audit

Answer: D

QUESTION 23

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.

Answer: C

QUESTION 24

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.

Answer: C

QUESTION 25

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.

Answer: C

QUESTION 26

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.

Answer: D

QUESTION 27

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.

Answer: C

QUESTION 28

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.

Answer: B

QUESTION 29

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.

Answer: A

QUESTION 30

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.

Answer: C

QUESTION 31

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.

Answer: C

QUESTION 32

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.

Answer: B

QUESTION 33

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.

Answer: B

QUESTION 34

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.

Answer: A

QUESTION 35

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.

Answer: A

QUESTION 36

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

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

Answer: D

QUESTION 37

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.

Answer: D