



**Vendor:** IIA

**Exam Code:** IIA-CIA-Part2

**Exam Name:** Certified Internal Auditor - Part 2, Conducting the Internal Audit Engagement

**Version:** DEMO

### QUESTION 1

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

1. They are discussed with management prior to finalizing the audit.
  2. They may be discarded after working papers are amended as appropriate.
  3. They are created by the auditor to support her fieldwork in case of questions.
  4. They are not required to support observations issued in the audit report.
- A. 1 and 3 only  
B. 1 and 4 only  
C. 2 and 3 only  
D. 2 and 4 only

**Answer: D**

### QUESTION 2

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

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

**Answer: B**

#### **Explanation:**

In the context of the fraud triangle, the condition where a vice president's unquestioned authority enabled the theft of funds is best described as "opportunity." Opportunity refers to the circumstances that allow fraud to occur, including the ability to override controls or exploit a lack of oversight. This is one of the three elements of the fraud triangle, which also includes rationalization and pressure.

### QUESTION 3

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

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

**Answer: A**

#### **Explanation:**

According to IIA guidance, the chief audit executive (CAE) is responsible for evaluating and verifying management's response to audit recommendations. The CAE must also determine the need and scope for additional work based on the adequacy and timeliness of management's corrective actions. This ensures that the audit recommendations are effectively implemented and

that any residual risks are appropriately managed.

#### QUESTION 4

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

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

**Answer: D**

**Explanation:**

According to the IIA Standards, the primary factors in determining the adequacy of an annual audit plan include sufficiency, appropriateness, and effective deployment of resources. These elements ensure that the internal audit activity can effectively cover key risk areas, provide relevant assurance, and utilize resources efficiently. While cost-effectiveness is important, it is considered less critical compared to ensuring the audit plan is comprehensive and appropriately targeted.

#### QUESTION 5

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

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

**Answer: C**

**Explanation:**

According to IIA guidance, the CAE has the ultimate responsibility for the internal audit activity but may delegate tasks such as reviewing, approving, and signing engagement reports to qualified internal audit staff. This delegation helps in managing workload and leveraging expertise within the team. However, the CAE should still periodically review the reports to maintain oversight and ensure quality.

#### QUESTION 6

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

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

**Answer: A**

**Explanation:**

To measure the performance related to the quality of audit recommendations, the internal audit activity should focus on whether the audit findings were relevant and useful to management. This directly assesses the practical impact and value of the audit recommendations, ensuring that they address significant issues and assist management in improving operations and controls.

**QUESTION 7**

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

1. During an audit of the hiring process in a law firm, it was discovered that potential employees' credentials were not always confirmed sufficiently. This process remained unchanged at the following audit.
  2. During an audit of the accounts payable department, auditors calculated that two percent of accounts were paid past due. This condition persisted at a follow up audit.
  3. During an audit of the vehicle fleet of a rental agency, it was determined that at any given time, eight percent of the vehicles were not operational. During the next audit, this figure had increased.
  4. During an audit of the cash handling process in a casino, internal audit discovered control deficiencies in the transfer process between the slot machines and the cash counting are
- A. It was corrected immediately.  
B. 1 and 3 only  
C. 1 and 4 only  
D. 2 and 3 only  
E. 2 and 4 only

**Answer: D**

**Explanation:**

The most reliable assurance comes from findings that demonstrate both the identification of issues and the effectiveness of corrective actions. In the provided scenarios, the accounts payable audit (2) and the cash handling process audit (4) illustrate instances where issues were identified, and actions were either needed (2) or taken promptly (4), thus providing a clear basis for forming an opinion on internal control adequacy.

**QUESTION 8**

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

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

**Answer: D**

**Explanation:**

When there is a deadlock between the internal auditor and management over a significant issue such as access controls, escalating the issue to senior management is the most effective strategy. This approach ensures that the disagreement is addressed at a higher organizational level, where a decision can be made that aligns with the organization's risk tolerance and priorities.

#### QUESTION 9

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

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

**Answer: A**

**Explanation:**

When setting the scope for identifying and assessing key risks and controls in a process, developing the scope of the audit based on a bottom-up perspective is the least appropriate approach. A bottom-up perspective typically focuses on individual controls and processes without necessarily aligning with the organization's critical business objectives and risk appetite. Effective risk assessment should begin with a top-down approach, identifying key business objectives and the associated risks, and then determining the necessary controls to manage these risks.

#### QUESTION 10

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

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

**Answer: A**

**Explanation:**

According to IIA guidance, when the internal audit activity investigates potential ethics violations in a foreign subsidiary, communication of any internal ethics violations to external parties may occur, but only with appropriate safeguards. This ensures that sensitive information is protected and that the organization complies with both local and international legal requirements. Cross-cultural differences and local laws must be considered, but the primary focus is on maintaining appropriate safeguards during communication.

#### QUESTION 11

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

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

opportunities.

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

**Answer: D**

**Explanation:**

According to IIA guidance, to maximize the value of the current internal audit activity (IAA) resources, it is appropriate to hire external resources to provide subject-matter expertise while ensuring they are supervised (3). Additionally, assigning auditors to complex audits for learning opportunities helps in skill development and enhances the overall capability of the IAA (4). These strategies ensure that the IAA can address complex and high-risk areas effectively while also fostering professional growth among internal auditors.

#### QUESTION 12

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

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

**Answer: C**

**Explanation:**

According to IIA guidance, a request for an increase in the Chief Audit Executive's (CAE) salary for the next fiscal year should be submitted only to the CEO. Compensation matters typically fall under the purview of executive management rather than the board, as the board focuses on broader governance issues, including risk assessment, audit plans, and resource allocation.

#### QUESTION 13

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

- A. Testing controls where operating procedures vary.
- B. Testing controls in decentralized offices.
- C. Testing controls in high risk areas.
- D. Testing controls in areas with high control failure rates.

**Answer: B**

**Explanation:**

An internal control questionnaire is most appropriate in situations where controls need to be assessed across decentralized offices. This tool helps gather consistent information on the presence and effectiveness of controls in multiple locations, ensuring a standardized approach to control assessment. It allows for efficient data collection and comparison, which is critical in decentralized environments where processes and controls may vary.

#### QUESTION 14

According to IIA guidance, which of the following statements is true regarding the authority of the

chief audit executive (CAE) to release previous audit reports to outside parties?

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

**Answer: A**

**Explanation:**

According to IIA guidance, the release of prior internal audit reports to external parties must be carefully managed to protect the confidentiality and integrity of the information. The CAE must obtain approval from the board and senior management before releasing such reports. This ensures that sensitive information is disclosed appropriately and in alignment with the organization's governance and compliance policies.

#### QUESTION 15

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

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

**Answer: B**

**Explanation:**

When facilitating a risk and control self-assessment (RCSA) workshop, the internal auditor's most appropriate role is to provide the necessary techniques and guidelines for conducting the exercise. This involves guiding participants on the methodology and framework for identifying and assessing risks and controls without influencing their inputs or conclusions, thereby ensuring an objective and effective self-assessment process.

#### QUESTION 16

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

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

deliverables.

**Answer: D**

**Explanation:**

The most appropriate course of action for the CAE is to evaluate the robustness and feasibility of the management's action plan to address the identified weaknesses. The CAE should monitor the implementation progress, key dates, and deliverables to ensure that corrective actions are on track and will effectively mitigate the risks within the stipulated timeline.

#### **QUESTION 17**

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

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

**Answer: A**

**Explanation:**

Control self-assessment (CSA) processes typically emphasize the inclusion and evaluation of both formal (hard) and informal (soft) controls. The exclusion of informal, soft controls is not an outcome of an effective CSA process. Instead, CSA encourages a comprehensive review of all control types to enhance risk management and control effectiveness.

#### **QUESTION 18**

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

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

**Answer: A**

**Explanation:**

To increase the deterrent effect of a code of business conduct, it should include appropriate descriptions of penalties for misconduct and notifications that violations may lead to criminal prosecution. These elements clearly communicate the serious consequences of unethical behavior, thus reinforcing the importance of adhering to the code.

#### **QUESTION 19**

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



scope of the audit?

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

**Answer: B**

**Explanation:**

The most important group or individual for the CAE to consult to determine the scope of the audit regarding compliance with new environmental regulations is the environmental, health, and safety manager. This individual or group has specialized knowledge about the organization's operations, regulatory requirements, and existing controls related to environmental compliance. Consulting with the environmental, health, and safety manager ensures that the audit scope is comprehensive and accurately addresses the pertinent risks and compliance requirements.

#### **QUESTION 20**

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

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

**Answer: D**

**Explanation:**

According to IIA guidance, the internal audit activity (IAA) can evaluate risk management processes without the need for safeguards. This activity aligns with the internal auditors' role in providing assurance on the effectiveness of the risk management process. Coaching management (Option A) and developing risk management strategies (Option B) involve direct participation in management functions, which could impair objectivity and require safeguards. Facilitating the identification and evaluation of risks (Option C) might also involve a degree of management participation that could compromise independence without proper safeguards.

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