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

IIA IIA-CIA-Part1

Version Demo

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Topic Break Down

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QUESTION NO: 1

The internal audit activity's role in the risk assessment and management processes of an organization is determined by the:

- A. Board of directors.
- B. Chief audit executive.
- C. Risk management department.
- D. External auditors.

ANSWER: A

QUESTION NO: 2

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.

ANSWER: A

QUESTION NO: 3

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.

ANSWER: B

QUESTION NO: 4

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 NO: 5

A multinational organization has asked the internal audit activity to assist in setting up the organization's risk management system. The chief audit executive (CAE) agrees to take on the engagement as a consultant. Which of the following tasks is appropriate for the CAE to undertake?

- A. Coordinate and facilitate risk workshops for management to attend.
- B. Establish the degree of risk appetite for management to accept.
- C. Set risk indicators and mitigation plans for management to implement
- D. Determine the number of significant risks for management to report to the board.

ANSWER: A

QUESTION NO: 6

During an assurance engagement, an internal auditor identified that a developer of the organization's enterprise resource planning (ERP) system had intentionally modified the production code to commit a fraudulent transaction. Which control activity should be implemented to prevent such issues in the future?

- A. Segregate duties between code development and migrating changes into production.
- B. Conduct fraud training for the IT team responsible for the ERP system.
- C. Penalize the developer who committed the fraud by terminating employment.
- D. Restrict developers' access to the ERP system's test environment.

ANSWER: D

QUESTION NO: 7

According to the Standards, the organizational status of the internal audit activity:

- A. Must be sufficient to permit the accomplishment of its audit responsibilities.
- B. Is best when the reporting relationship is direct to the board of directors.
- C. Requires the board's annual approval of the audit schedules, plans, and budgets.
- D. Is guaranteed when the charter specifically defines its independence.

ANSWER: A

QUESTION NO: 8

It would be appropriate for an internal audit activity to use consultants with expertise in health-care benefits when the internal audit activity is:

- I. Conducting an audit of the organization's estimate of its liability for post retirement benefits, which include health care benefits.
- II. Comparing the cost of the organization's health care program with that of other programs offered in the industry.
- III. Training its staff to conduct an audit of health care costs in a major division of the organization.

A. I only

B. I and III only

C. II and III only

D. I, II, and III.

E. Conducting an audit of the organization's estimate of its liability for post retirement benefits, which include health care benefits.

II. Comparing the cost of the organization's health care program with that of other programs offered in the industry.

III. Training its staff to conduct an audit of health care costs in a major division of the organization.

ANSWER: D

QUESTION NO: 9

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.

E. 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.

ANSWER: D

QUESTION NO: 10

An internal auditor assessed the controls within his organization's payroll process and suspects that erroneous payments may have been made to a fraudulent bank account. What is the best course of action for the auditor to take?

A. Speak to the payroll manager so he may investigate the auditor's observations.

B. Continue to investigate the payments to confirm the accuracy of the observations, and determine whether further fraudulent payments have been made.

C. Stop the audit and report the findings to senior management immediately.

D. Escalate the concern to the engagement supervisor.

ANSWER: C

QUESTION NO: 11

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.

ANSWER: D

QUESTION NO: 12

An organization has implemented a new automated payroll system that contains a table of pay rates that are matched to employee job classifications. Which control should an internal auditor suggest in order to ensure that the table is updated correctly, and is used only for valid pay changes?

- A.** Restrict data-table access from management and line supervisors who have the authority to determine pay rates.
- B.** Require a supervisor in the department, who has the ability to change the table, to compare the changes to a signed management authorization.
- C.** Ensure that adequate edit and reasonableness checks are built into the automated system.
- D.** Require a manager, who is independent of the system and who cannot change the table, to authorize and sign-off on any employee pay changes.

ANSWER: D

QUESTION NO: 13

Which of the following is an activity that an internal auditor must not perform?

- A.** Establish and provide continuing assurance on an anti-money laundering program for new hires.
- B.** Survey employees for their understanding of anti-money laundering practices.
- C.** Provide assurance for the effectiveness of anti-money laundering training.
- D.** Assess the risk of being fined for ineffective anti-money laundering practices.

ANSWER: A

QUESTION NO: 14

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

QUESTION NO: 15

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.

E. 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.

ANSWER: C

QUESTION NO: 16

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

QUESTION NO: 17

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.

ANSWER: B

QUESTION NO: 18

In order to be organizationally independent, the chief audit executive should report administratively to the [List A] and functionally to the [List B].

[List A]

[List B]

- A. Audit committee
Board of directors
- B. Chief executive officer
Board of directors
- C. Chief executive officer
Chief financial officer
- D. Audit committee
Chief financial officer

ANSWER: B

QUESTION NO: 19

According to IIA guidance, which policy, established by the chief audit executive, would most likely ensure internal audits are conducted with due professional care?

- A. The initial review of workpapers should be conducted after the final engagement report is issued.
- B. Independent internal assessments of the internal audit activity should be performed by entry-level staff as part of on-the-job training.
- C. Internal audit staff should be informed regularly of changes to policies and procedures.
- D. Training documents should be destroyed at the end of the year to create space for the next year's training documents.

ANSWER: C

QUESTION NO: 20

Which of the following statements is true regarding a key difference between assurance and consulting services provided by the internal audit activity?

- A.** When conducting a consulting engagement, the nature and scope of the engagement are determined by the internal audit activity.
- B.** Three parties are participants in assurance services, while consulting engagements generally involve two parties.
- C.** An assurance engagement has two participants, while consulting engagements generally involve three parties.
- D.** When conducting an assurance engagement, the engagement objectives, scope, and techniques are agreed with the area under review.

ANSWER: C

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