

IIA

Exam Questions IIA-CRMA-ADV

Certification in Risk Management Assurance



NEW QUESTION 1

- (Topic 1)

An internal audit charter describes the mission and scope of the internal audit activity (IAA), responsibilities of the IAA, accountability of the chief audit executive, independence of the IAA, and standards followed by the IAA. Which of the following also should be included in the charter?

- A. The purpose of the IAA.
- B. The IAA's right to have unrestricted access to functions, records, personnel, and physical property.
- C. A detailed audit plan or program for the year.
- D. The job specifications and descriptions of the internal audit staff.

Answer: B

NEW QUESTION 2

- (Topic 1)

Why are preventative controls generally preferred to detective controls?

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

Answer: A

NEW QUESTION 3

- (Topic 1)

During an engagement, an internal auditor decided to use variance analysis as an auditing techniques. Which of the following steps should the auditor pursue if he discovers unexpected deviations of actual results from budget?

- A. Report the deviations immediately to the audit committee.
- B. Gather additional information to determine the cause of the deviations.
- C. Conclude that the budget was unreasonably set and accept the deviations.
- D. Perform alternative forms of analytical procedures which provide no deviations.

Answer: B

NEW QUESTION 4

- (Topic 1)

Which of the following statements best explains why internal auditors map processes?

- * 1. To obtain audit evidence to support auditor's observations.
- * 2. To determine scope and objectives of the audit.
- * 3. To facilitate the identification of ownership and responsibility for key risks.
- * 4. To identify potential efficiency improvements.

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

Answer: D

NEW QUESTION 5

- (Topic 1)

A staff auditor, nearly finished with an audit engagement, discovers that the director of marketing has a gambling habit. The gambling issue is not directly related to the existing engagement, and there is pressure to complete the current engagement. The auditor notes the problem and forwards the information to the chief audit executive, but performs no further follow-up.

Which of the following statements is true about the auditor's actions?

- A. They are in violation of the IIA Code of Ethics because the auditor withheld meaningful information.
- B. They are in violation of the Standards because the auditor did not properly follow up on a red flag that might indicate the existence of fraud.
- C. They are in violation of neither the IIA Code of Ethics nor the Standards.
- D. They are not in violation of the Standards but are in violation of the IIA Code of Ethics.

Answer: C

NEW QUESTION 6

- (Topic 1)

An accounts receivable clerk receives cash payments, posts the payments to customer accounts, and prepares the daily cash deposit.

The clerk has been stealing some cash and manipulating the customer payments to hide the theft.

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

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

Answer: C

NEW QUESTION 7

- (Topic 1)

The director of purchasing, a certified internal auditor (CIA), signs a contract to procure a large order from a supplier whose products provide the best price, quality, and performance. A few days after signing the contract, the supplier presents the CIA with \$1,000 as a gift. Which statement regarding acceptance of the money is correct?

- A. Accepting the money would be prohibited only if it were non-customary.
- B. Accepting the money would violate the IIA Code of Ethics.
- C. Because the CIA is not acting as an internal auditor, accepting the money would be governed only by the organization's code of conduct.
- D. Because the contract was signed before the money was offered, accepting the money would not violate the IIA Code of Ethics.

Answer: B

NEW QUESTION 8

- (Topic 1)

According to IIA guidance, which of the following best describes processes and tools typically used in ongoing internal assessments?

- A. Benchmarking of the internal audit activity's practices and performance.
- B. Report of internal assessment results, response plans, and outcomes.
- C. Analysis of performance metrics such as cycle times.
- D. Self-assessments and surveys of stakeholder groups.

Answer: C

NEW QUESTION 9

- (Topic 1)

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

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

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

Answer: A

NEW QUESTION 10

- (Topic 1)

Which of the following audit procedures would provide the most relevant information to identify discrepancies between budgeted versus actual raw material consumption in a production facility?

- A. Analytical review.
- B. Inquiry.
- C. Document verification.
- D. Observation.

Answer: A

NEW QUESTION 10

- (Topic 1)

Which of the following would most likely be considered a red flag for fraud?

- A. An organization lacks a whistleblower hotline for reporting suspicious activity.
- B. A senior manager has been delegating the authority to sign-off on small dollar amount purchases to a subordinate.
- C. An employee in charge of payroll disbursements has rotated these duties with several colleagues.
- D. An employee with significant personal debt is in charge of handling large wire transfers for the organization.

Answer: D

NEW QUESTION 14

- (Topic 1)

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

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

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

Answer: B

NEW QUESTION 19

- (Topic 1)

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

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

Answer: C

NEW QUESTION 23

- (Topic 1)

An internal auditor for a large retail chain suspects that a store manager has been stealing money from cash sales by listing the sales as accounts receivable and then writing off the accounts as bad debts. Which of the following irregularities is the most likely cause of the auditor's suspicion?

- A. A much higher bad debt expense as a percentage of sales than that of previous years.
- B. A much higher bad debt expense as a percentage of sales than that of other stores.
- C. A much higher percentage of past-due accounts receivable than that of other stores.
- D. A much higher percentage of past-due accounts receivable than that of previous years.

Answer: B

NEW QUESTION 24

- (Topic 1)

In which of the following scenarios would a customer service hotline receive a high volume of complaints regarding payments not being applied to customers' accounts??

- A. Invoices are not being mailed to customers.
- B. An employee is tampering with customer checks.
- C. Employees are submitting fraudulent expense reports.
- D. The customer service department is not forwarding complaints to the accounts receivable department.

Answer: B

NEW QUESTION 27

- (Topic 1)

The chief audit executive (CAE) of a mid-sized pharmaceutical organization has operational responsibility for the regulatory compliance function. The audit committee requests an assessment of regulatory compliance. According to IIA guidance, which of the following is the CAE's best course of action?

- A. Have a proficient internal audit staff member perform the assessment and disclose the impairment in the audit report and to the board.
- B. Have a regulatory compliance staff member perform a self-assessment, to be reviewed by a proficient internal auditor.
- C. Have a proficient internal audit staff member perform the audit and report the results of the assessment directly to senior management and the board.
- D. Contract with a third-party entity or external auditor to complete the assessment and report the results to senior management and the board.

Answer: D

NEW QUESTION 32

- (Topic 1)

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

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

Answer: B

NEW QUESTION 35

- (Topic 1)

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

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

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

Answer: A

NEW QUESTION 38

- (Topic 1)

According to IIA guidance, which of the following statements is false regarding continuing professional education for the internal audit activity (IAA)?

- A. Continuing professional education can be obtained through IAA involvement in research projects.
- B. Employers are responsible for ensuring that the continuing professional education needs of the IAA are met.

- C. Completion of self-study courses fulfills IAA continuing professional education requirements.
- D. Specialized education that meets unique organizational needs cannot qualify as IAA professional development.

Answer: B

NEW QUESTION 43

- (Topic 1)

According to IIA guidance, which of the following statements regarding the internal audit charter is true?

- A. Senior management should approve the charter before it is submitted to the board.
- B. The charter should describe the purpose and authority of the internal audit activity, consistent with the Standards.
- C. The charter should define the consulting services that the internal audit activity is permitted to perform.
- D. The CEO periodically should assess whether the terms of the charter continue to be adequate.

Answer: A

NEW QUESTION 47

- (Topic 1)

Which of the following best describes the assessment of risks?

- A. Assess the actions necessary to reduce the likelihood and/or impact of risk to tolerable levels.
- B. Assess the likelihood and/or impact of risk on the achievement of organizational objectives.
- C. Assess the amount of risk an organization can accept while pursuing its objectives.
- D. Assess alternative strategies to reduce or eliminate major risks.

Answer: B

NEW QUESTION 50

- (Topic 1)

What is the primary purpose of a fishbone diagram?

- A. To depict the areas of responsibility for departments in an organization.
- B. To plan and control complex projects, such as internal audits.
- C. To represent the frequencies of adverse conditions in a given process.
- D. To identify the possible causes of adverse conditions.

Answer: D

NEW QUESTION 55

- (Topic 1)

When conducting an interview, an internal auditor is most likely to ask open-ended questions in order to:

- A. Obtain specific answers and maximize efficiency.
- B. Gather factual data on several different topics.
- C. Determine agreement or disagreement with a stated viewpoint.
- D. Obtain information based on the person's own perspective.

Answer: D

NEW QUESTION 59

- (Topic 1)

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

NEW QUESTION 62

- (Topic 1)

An internal auditor would like to identify the involvement of various organizational units in handling employee travel reimbursement claims. Which of the following methods would be most effective and efficient in completing this task?

- A. Process mapping.
- B. Interviewing.
- C. Monitoring.
- D. Distributing questionnaires.

Answer: A

NEW QUESTION 66

- (Topic 1)

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

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

Answer: B

NEW QUESTION 69

- (Topic 1)

While attending a conference, an internal auditor won an all-expense paid trip sponsored by a vendor of the internal auditor's organization. Which of the following actions are most appropriate for the auditor to take?

- A. Consult with an immediate supervisor and notify the organization's audit committee.
- B. Consult with an immediate supervisor and review the organization's ethics policy.
- C. Give the prize to a friend or family member and notify the organization's audit committee.
- D. Give the prize to a friend or family member and review the organization's ethics policy.

Answer: B

NEW QUESTION 72

- (Topic 1)

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

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

- A. Due professional care.
- B. Individual objectivity.
- C. Proficiency.
- D. Organizational independence.

Answer: A

NEW QUESTION 73

- (Topic 1)

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

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

Answer: B

NEW QUESTION 76

- (Topic 1)

Which of the following is not one of the 10 core competencies identified in the IIA Competency Framework?

- A. Governance, risk, and control.
- B. Performance management.
- C. Business acumen.
- D. Internal audit delivery.

Answer: B

NEW QUESTION 80

- (Topic 1)

Why is it important for the chief audit executive to periodically review the audit charter and present the results to senior management and the board?

- A. Because management requires the review to measure effectiveness of the internal audit activity.
- B. So that the individual objectivity of the internal audit staff can be more clearly established.
- C. So that there is assurance of the internal audit staff's proficiency to complete audit activities.
- D. Because changes in the organization may impair the internal audit activity's ability to meet its objectives.

Answer: D

NEW QUESTION 81

- (Topic 1)

Which of the following scenarios would represent the greatest threat to the authority of the internal audit activity (IAA)?

- A. A change was implemented requiring the IAA to report administratively to the organization's chief legal counsel rather than the board.
- B. Responsibility for risk management processes were removed from the IAA and placed under a newly created chief risk officer.
- C. The IAA was denied access to expenditure and budget requirement reports because the reports were considered to be financial administrative matters.
- D. An internal auditor was informed by the chief financial officer that client survey results would be unfavorable unless the auditor changed a finding in the report.

Answer: C

NEW QUESTION 82

- (Topic 1)

Which of the following scenarios exemplifies a potential internal control weakness?

- A. The same employee who receives cash from customers prepares a prelisting of cash receipts.
- B. The same employee who records cash receipts in the accounts receivable subsidiary ledger ensures that the ledger automatically updates the information.
- C. The same employee who restrictively endorses checks received from customers prepares the bank's check deposit slips.
- D. The same employee who makes deposits at the bank prepares the monthly bank reconciliation.

Answer: D

NEW QUESTION 83

- (Topic 1)

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

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

Answer: D

NEW QUESTION 85

- (Topic 1)

Which of the following would provide the best guidance to a chief audit executive who is setting internal audit staff requirements?

- A. A review of audit staff education and training records.
- B. Information about the audit staff size and composition of comparable organizations.
- C. Results from discussions of audit needs with executive management and the audit committee.
- D. The results of the audit staff's most recent performance reviews.

Answer: C

NEW QUESTION 87

- (Topic 1)

An internal auditor makes a series of observations when performing an analytical review of division operations. The auditor notes the following things: the current ratio is increasing and the quick ratio is decreasing, sales and current liabilities have remained constant, and the number of day sales in inventory is increasing. Which conclusion should the auditor draw from this data?

- A. Cash or accounts receivable has decreased.
- B. The gross margin has decreased.
- C. The division produced fewer items this year than in prior years.
- D. The gross margin has increased.

Answer: A

NEW QUESTION 89

- (Topic 1)

Which of the following would provide the best evidence of errors in the quantities of items received from suppliers?

- A. Suppliers' reports of over shipments.
- B. Warehouse receiving logs.
- C. Purchase requisitions and purchase orders.
- D. Observation and inspection of inventory.

Answer: B

NEW QUESTION 90

- (Topic 1)

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

- A. Three months.
- B. Six months.
- C. One year.
- D. Two years.

Answer: C

NEW QUESTION 95

- (Topic 1)

An organization's chief audit executive (CAE) determines that the internal audit staff does not have the requisite skills to conduct an audit of the financial derivatives area. Which of the following would be the best course of action for the CAE to follow?

- A. Outsource the audit engagement to a qualified external auditing firm without burdening the audit committee with the decision.
- B. Determine the requisite knowledge needed, and obtain the proper training for auditors, even if the training will significantly push back the project's timeframe as outlined by the audit committee.
- C. Notify the audit committee of the problem, and assign the most competent auditors on staff to perform the audit engagement.
- D. Employ the skills of a financial derivatives expert to consult on the project, and supplement the consulting with a local seminar on financial derivatives.

Answer: D

NEW QUESTION 96

- (Topic 1)

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

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

Answer: B

NEW QUESTION 99

- (Topic 1)

An internal audit activity (IAA) provided assurance services for an activity it was responsible for during the preceding year. As a result, which IIA Code of Ethics principle is presumed to be impaired?

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

Answer: C

NEW QUESTION 103

- (Topic 1)

A manufacturing organization discovers that the waste water released has failed to meet permitted limits. Which control function will be least effective in correcting the issue?

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

Answer: C

NEW QUESTION 106

- (Topic 1)

Which of the following activities best reflects the scope and status of the internal audit activity as defined in the internal audit policy statement?

- A. The internal auditor reviews the physical access to merchandise during an inventory count.
- B. The audit manager conducts an internal quality assessment of the internal audit activity's adherence to the Standards.
- C. The audit manager refrains from assigning an auditor who was a former payroll clerk to conduct a payroll audit.
- D. The board approves the annual performance evaluation of the chief audit executive.

Answer: A

NEW QUESTION 108

- (Topic 1)

During the course of an audit, an internal auditor discovers that a valuable employee in the research department has been patenting new developments in the employee's name that are unrelated to the basic business of the organization.

The organization does not have a policy addressing this specific issue, but does have a general policy that all important new discoveries by employees are the property of the organization.

Division management views the employee's actions as extra incentive to retain the employee.

A decision to include the employee's action in the engagement final communication would be:

- * 1. A violation of the IIA Code of Ethics.
- * 2. A violation of the reporting requirements in the Standards.
- * 3. Justified and necessary, according to the IIA Code of Ethics and Standards.

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

Answer: C

NEW QUESTION 109

- (Topic 1)

Which of the following actions indicates a lack of due professional care by an internal auditor performing an audit of a store's cash function?

- A. The audit report included a well-supported recommendation for a reduction in staff even though such a reduction might adversely impact morale.
- B. The auditor tested samples of transactions to test the cash function's process flows.
- C. After determining that the cash function internal controls were strong, the audit report assured senior management that fraud was not present.
- D. The auditor discovered an instance of potential fraud and reported it immediately to management, but did not alert authorities outside the organization.

Answer: C

NEW QUESTION 114

- (Topic 1)

The last quality assessment of the internal audit activity identified three areas for improvement: the achievement of audit engagement objectives, quality of work, and staff development. According to IIA guidance, which of the following should be the chief audit executive's primary focus to achieve these recommended improvements?

- A. Demonstrated compliance with procedures.
- B. Due professional care.
- C. Engagement supervision.
- D. Employment of tools and techniques.

Answer: C

NEW QUESTION 119

- (Topic 1)

Which of the following is not an appropriate activity for internal auditors to perform?

- A. Recommend management seek a consulting firm to advise on outsourcing.
- B. Highlight matters that require management's attention.
- C. Implement solutions for specific organizational problems.
- D. Accumulate data, obtain varying views, and report information to senior management.

Answer: C

NEW QUESTION 121

- (Topic 1)

According to the Standards, which of the following best describes why initial audit test results should be reported to the auditor-in-charge prior to advising management?

- A. It increases the likelihood of obtaining the audit client's agreement with the results.
- B. It ensures that an appropriate chain of evidence is maintained through the workpapers.
- C. It helps ensure that appropriate professional judgments and conclusions are made.
- D. It is required to demonstrate that effective engagement supervision has occurred.

Answer: C

NEW QUESTION 125

- (Topic 1)

Which of the following is a valid statement about the use of visual observations during an audit engagement?

- * 1. Visual observations can be used to detect ineffective controls, idle resources, and safety hazards.
- * 2. Visual observations can be used during both preliminary survey and fieldwork stages of the audit engagement.
- * 3. Visual observations can provide unsubstantiated facts to management if the internal auditor believes the information is useful.
- * 4. Visual observations can assist an auditor in determining if a material observation should be communicated through informal means to the organization's senior management.

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

Answer: A

NEW QUESTION 128

- (Topic 2)

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 133

- (Topic 2)

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 134

- (Topic 2)

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

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

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

Answer: C

NEW QUESTION 135

- (Topic 2)

With regard To IT governance, which of the following is the most effective and appropriate role for the internal audit activity?

- A. Independently evaluate the skills and experience of potential chief information officer candidates to assess the best fit based on the organization's risk appetite.
- B. Evaluate the organization's governance standards and assess IT-related activities to identify gaps and develop policies, ensuring alignment with the organization's risk appetite.
- C. Assist management in interpreting complex IT-related privacy and security risk exposures and evaluating potential mitigation strategies.
- D. Assess whether governance activities are aligned with the organization's risk appetite and take into consideration emerging risks.

Answer: D

NEW QUESTION 136

- (Topic 2)

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 140

- (Topic 2)

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 141

- (Topic 2)

Which of the following are components of the ISO 31000 risk management process?

- * 1. Setting the context.
- * 2. Risk treatment.
- * 3. Risk avoidance.
- * 4. Communication.

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

Answer: A

NEW QUESTION 142

- (Topic 2)

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 assesframework.

Answer: D

NEW QUESTION 146

- (Topic 2)

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 151

- (Topic 2)

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annua 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 154

- (Topic 2)

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 157

- (Topic 2)

According to IIA guidance, which of the following describes the primary reason to implement environmental and social safeguards within an organization?

- A. To enable Triple Bottom Line reporting capability.
- B. To facilitate the conduct of risk assessment.
- C. To achieve and maintain sustainable development.
- D. To fulfill regulatory and compliance requirements.

Answer: C

NEW QUESTION 158

- (Topic 2)

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 161

- (Topic 2)

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 165

- (Topic 2)

In which of the following scenarios would the chief audit executive (CAE) be required to decline the assignment?

- A. The CAE would need to procure external services to deliver the internal audit assurance program.
- B. There is no expertise within the internal audit team for detecting and investigating fraud.
- C. There is no expertise within the internal audit team for auditing an IT engagement.
- D. There is no available expertise on the internal audit team to perform a consulting engagement.

Answer: B

NEW QUESTION 166

- (Topic 2)

The chief audit executive (CAE) has assigned an internal auditor to an upcoming engagement. Which of the following requirements would most likely indicate that the internal auditor was assigned to an assurance engagement?

- A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.
- B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.
- C. The assigned internal auditor must not assume management responsibilities while performing the engagement.
- D. The assigned internal auditor must maintain objectivity while performing the engagement.

Answer: A

NEW QUESTION 169

- (Topic 2)

Which of the following control methods is effective in reducing the risk of purchasing- scheme fraud?

- * 1. Periodically reviewing the vendor list for unusual vendors and addresses.
- * 2. Segregating duties for amount purchasing, receiving, shipping, and accounting.
- * 3. Validating sequential integrity of purchase orders.
- * 4. Verifying the validity of invoices with post office box addresses.

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

Answer: B

NEW QUESTION 171

- (Topic 2)

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 175

- (Topic 2)

According to The IIA's Code of Ethics, which of the following actions violates the principle of confidentiality?

- A. Accepting a consulting request in the IT department without possessing the requisite experience.
- B. Providing personal tax preparation services for a fee for several employees during the lunch hour.
- C. Providing a friend with the marketing strategic plan, which she will use to prepare her university thesis.
- D. Agreeing to reword an observation to avoid the client complaining directly to the auditor's supervisor.

Answer: C

NEW QUESTION 177

- (Topic 2)

An organization decides to take no action on one of its financial risks because the cost of implementing the control outweighs the value of the asset being protected. Which of the following best describes this risk strategy?

- A. Risk avoidance.
- B. Risk-benefit analysis.
- C. Risk sharing.

D. Risk acceptance.

Answer: D

NEW QUESTION 180

- (Topic 2)

Which of the following would be the most appropriate first step for the board to take when developing an effective system of governance?

- A. Determine the organization's overall risk appetite.
- B. Establish a governance committee.
- C. Delegate authority to members of senior management.
- D. Identify key stakeholders and their expectations.

Answer: D

NEW QUESTION 185

- (Topic 2)

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: D

NEW QUESTION 188

- (Topic 2)

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 193

- (Topic 2)

According to IIA guidance, which of the following statements is true regarding the reporting of results from an external quality assessment of the internal audit activity?

- A. The external assessment results are reported upon completion in confidence directly to the board, and senior management is advised only of the recommendations and improvement action plans.
- B. The results of self-assessments with independent external validation are shared with the board upon completion, and monitoring of recommended improvements must be reported monthly.
- C. The external assessment results are communicated upon completion to senior management and the board, but action plans for recommended improvements do not have to be reported.
- D. The requirements for reporting quality assessment results are the same for external assessments and self-assessments with independent external validation.

Answer: B

NEW QUESTION 198

- (Topic 2)

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 200

- (Topic 2)

Which of the following is a common type of payroll fraud?

- A. Unauthorized overtime.
- B. Fictitious employees.
- C. Unearned bonuses or commissions.
- D. Skimming.

Answer: B

NEW QUESTION 204

- (Topic 2)

An auditor in charge was reviewing the workpapers submitted by a newly hired internal auditor. She noted that the new auditor's analytical work did not include any rating or quantification of the risk assessment results, and she returned the workpapers for correction. Which section of the workpapers will the new auditor need to modify?

- A. Condition section.
- B. Criteria section.
- C. Effect section.
- D. Cause section.

Answer: C

NEW QUESTION 205

- (Topic 2)

Which of the following controls could an internal auditor reasonably conclude is effective by observing the physical controls of a large server room?

- A. Adequate signs are in place to assist in locating safety equipment.
- B. Servers are secured individually to their racks by locks.
- C. Foam fire extinguishers are operable to protect against electrical fires.
- D. Swipe card access is required to gain access to the server room.

Answer: A

NEW QUESTION 208

- (Topic 2)

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 209

- (Topic 2)

What is the purpose of a secondary control?

- A. It replaces primary controls that are either ineffective or cannot fully mitigate a risk.
- B. It partially reduces the residual risk level when a key control does not operate effectively.
- C. It combines with other controls to help reduce significant risk exposures to an acceptable level.
- D. It helps to ensure the completeness and accuracy of automated controls in a system environment.

Answer: C

NEW QUESTION 213

- (Topic 2)

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 218

- (Topic 2)

What is the primary benefit to the internal audit activity for undertaking an internal quality assessment?

- A. To help the internal audit activity complete its annual assurance plan.
- B. To identify inefficiencies within the internal audit team.
- C. To help improve the overall quality of the internal audit activity's work.
- D. To identify key risks and areas of concern within the organization.

Answer: C

NEW QUESTION 219

- (Topic 2)

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 224

- (Topic 2)

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 229

- (Topic 2)

Which of the following are core responsibilities to be included in the internal audit charter?

- * 1. Review reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- * 2. Determine the adequacy and effectiveness of the organization's systems of internal accounting and operating controls.
- * 3. Participate in the planning and performance of audits of potential acquisitions with the organization's outside accountants and other members of the corporate staff.
- * 4. Report to those members of management who should be informed of results of audit examinations, the audit opinions formed, and the recommendations made.

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

Answer: A

NEW QUESTION 232

- (Topic 2)

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 233

- (Topic 2)

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

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

Answer: C

NEW QUESTION 235

- (Topic 2)

To fill a critical vacancy, an internal auditor is assigned temporarily to a nonaudit role in the purchasing department, where she worked previously before joining the internal audit activity. According to IIA guidance, which of the following statements is true regarding these circumstances?

- A. The chief audit executive (CAE) should review all work performed by the auditor during her temporary assignment to ensure no impairments.
- B. The CAE may conduct audits in the purchasing department during the auditor's temporary assignment.
- C. The auditor should obtain the CAE's approval as to the nature and scope of the duties she is permitted to perform during her temporary assignment.
- D. Any work performed by the auditor during her temporary assignment must conform to the internal audit charter.

Answer: C

NEW QUESTION 237

- (Topic 2)

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

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

Answer: A

NEW QUESTION 241

- (Topic 2)

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 245

- (Topic 2)

Which of the following would not be considered part of preliminary survey of an engagement area?

- A. Interviews with individuals affected by the entity.
- B. Functional walk through test.
- C. Analytical reviews.
- D. Sampling scope.

Answer: D

NEW QUESTION 247

- (Topic 2)

According to IIA guidance, which of the following should be formally documented in the internal audit charter?

- A. The internal audit activity's responsibility for imposing risk management processes.
- B. The internal audit activity's responsibility for the organization's governance framework.
- C. The nature of consulting services provided by the internal audit activity.
- D. The budgeting process for the internal audit activity.

Answer: C

NEW QUESTION 250

- (Topic 2)

A former line supervisor from the Financial Services Department has completed six months of a two-year development opportunity with the internal audit activity (IAA). She is assigned to a team that will audit the organization's payroll function, which is managed by the Human Resources Department. Which of the following statements is most relevant regarding her independence and objectivity with respect to the payroll audit?

- A. She may participate, but only after she has completed one year with the IAA.
- B. She may participate, because she did not previously work in the Human Resources Department.
- C. She may participate, but she must be supervised by the auditor in charge.
- D. She may participate for training purposes, to build her knowledge of the IAA.

Answer: B

NEW QUESTION 254

- (Topic 2)

Which of the following is considered a violation of The IIA's Code of Ethics?

- A. An auditor conveys public information about an organization's financial condition.
- B. An auditor reports a manager's illegal activity to senior management, rather than reporting the incident to the appropriate external authority.
- C. An auditor receives allegations of fraud from a whistleblower and immediately reports the allegations to senior management.
- D. An auditor reports material deficiencies, despite the fact that management is already aware of the defects.

Answer: C

NEW QUESTION 255

- (Topic 2)

Which of the following items should the chief audit executive disclose to senior management regarding the results of the internal audit activity's quality assessments?

- A. The internal audit activity's plan for resource allocation.
- B. The amount of the organization's potential loss prevented by the risk-based auditing of the internal audit activity.
- C. The number of audits from the annual internal audit plan that were completed last year.
- D. The qualifications and independence of the assessment Team.

Answer: B

NEW QUESTION 257

- (Topic 2)

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

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

Answer: A

NEW QUESTION 260

- (Topic 2)

Which of the following statements accurately describes an internal auditor's responsibility with regard to due professional care?

- A. An internal auditor should express an opinion only when consensus with topmanagement has been achieved.
- B. An internal auditor's opinion should be based on experience and free of all bias.
- C. An internal auditor's opinion should be based on factual evidence.
- D. An internal auditor's opinion should be limited to the effectiveness of internal controls.

Answer: C

NEW QUESTION 264

- (Topic 2)

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

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

Answer: D

NEW QUESTION 266

- (Topic 2)

An internal auditor needs to recommend a policy element to be included in an organization's code of ethics. Which of the following recommendations would be most effective?

- A. Ethics should vary with local customs in the organization's foreign operations.
- B. Whistleblowing should be discouraged because it can cause distrust among employees.
- C. Ethical behavior should be incorporated into performance evaluations.
- D. Senior management should be granted specific exemptions to the code of ethics.

Answer: C

NEW QUESTION 271

- (Topic 2)

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 272

- (Topic 2)

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 273

- (Topic 2)

Which of the following statements describes impairment to the internal auditor's objectivity?

- A. An internal auditor reviews a purchasing agent's contract drafts prior to their execution.
- B. An internal auditor reduces the scope of an audit engagement due to budget restrictions.
- C. An internal auditor receives a promotional gift that is available to the organization's employees.
- D. An internal auditor performs an assessment of the operations for which he was recently responsible.

Answer: D

NEW QUESTION 276

- (Topic 2)

Which of the following control activities is the most effective to ensure users' levels of access are appropriate for their current roles?

- A. The human resources department generates a monthly list of terminated and transferred employees and requests IT to update the user access as required.
- B. Standardized user access profiles are developed and the appropriate access profiles are automatically assigned to new or transferred employees.
- C. System administrator rights are assigned to one user in each department who can update user access of terminated or transferred employees immediately.
- D. Department managers are required to perform periodic user access reviews of relevant systems and applications.

Answer: D

NEW QUESTION 281

- (Topic 2)

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 285

- (Topic 2)

During an audit engagement, the internal auditor discussed a risk mitigation recommendation with the manager of the area under review. The manager disagreed with the risk assessment and recommendation. The two failed to come up with an alternative solution, and the auditor decided to proceed with including the original recommendation in the engagement report. Which of the following is especially important in dealing with this type of situation?

- A. Soft skills in communication, negotiation, and collaboration.
- B. Technical skills in the area under review.
- C. Professional qualifications and certification in internal auditing.
- D. Confidentiality and independence.

Answer: A

NEW QUESTION 289

- (Topic 2)

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

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

Answer: B

NEW QUESTION 294

- (Topic 2)

Management would like to self-assess the overall effectiveness of the controls in place for its 200-person manufacturing department. Which of the following client-facilitated approaches is likely to be the most efficient way to accomplish this objective?

- A. Workshops.
- B. Surveys.
- C. Interviews.
- D. Observation.

Answer: B

NEW QUESTION 299

- (Topic 2)

Which of the following best describes the details that must be included in the quality assurance and improvement program (QAIP) report to senior management and the board?

- A. The scope and frequency of internal and external assessments as well as the qualifications and independence of the assessor.
- B. The scope and cost of the QAI
- C. frequency of internal and external assessments, and conclusions of the assessor.
- D. The scope, findings, risks, recommendations, and agreed-upon improvement actions.
- E. The number and types of people involved in the assessment, costs, and duration of the QAIP

Answer: C

NEW QUESTION 302

- (Topic 2)

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 306

- (Topic 2)

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 307

- (Topic 2)

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 308

- (Topic 2)

Which of the following statements is true about The IIA Global Internal Audit Competency Framework?

- A. The core competencies outlined in the framework are not expected of a person undertaking an entry-level position as an internal auditor.
- B. The framework is designed to be used primarily by chief audit executives that are developing indicators to measure the performance of the internal audit activity for which they are responsible.
- C. The framework lists the core competencies internal auditors should possess before attempting to attain The IIA's Certified Internal Auditor certification.
- D. The framework describes competencies needed for individual internal auditors, but not those necessary at the chief audit executive level.

Answer: B

NEW QUESTION 309

- (Topic 2)

According to IIA guidance, which of the following should be included in the internal audit charter?

- A. The minimum resources and competencies needed for the internal audit activity.
- B. Identification of the organizational units where engagements are to be performed.
- C. Organizational relationships and reporting lines.
- D. Assigned responsibilities for designing and implementing controls.

Answer: C

NEW QUESTION 314

- (Topic 2)

An internal auditor is conducting an assessment of the organization's fraud prevention program using the COSO enterprise risk management framework. According to this framework, which of the following activities would fall under the control environment component for preventing fraud?

- * 1. The organization uses an automated authority approval matrix to control payments.
- * 2. The organization has a whistleblower hotline that is available to employees.
- * 3. Annually, every manager completes a comprehensive fraud assessment of his or her department.
- * 4. Annually, the organization reviews and communicates the code of expected behavior.

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

Answer: D

NEW QUESTION 318

- (Topic 2)

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

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

Answer: A

NEW QUESTION 320

- (Topic 2)

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 324

- (Topic 2)

Which of the following activities should the chief audit executive perform to ensure compliance with an organization's code of conduct?

- A. Act as an adviser to the committee responsible for reviewing violations of the code.
- B. Review and adjudicate all violations of the code of conduct.
- C. Lead the committee responsible for the oversight of the code.
- D. Implement a system of procedures to inform all employees of the code.

Answer: A

NEW QUESTION 327

- (Topic 2)

A chief audit executive (CAE) is reviewing the internal audit activity's performance and is concerned that the average number of revisions to findings is steadily rising, making it increasingly difficult to trace the finding to the supporting evidence and workpapers. According to IA guidance, which of the following elements of the internal audit activity's quality assurance and improvement program would provide the CAE with the most helpful insight into the cause of this problem?

- A. The overall effectiveness of the internal audit activity's periodic self assessments.
- B. The type of audit productivity and performance statistics reported.
- C. The adequacy of the day-to-day supervision and review process.
- D. The scope and frequency of external assessments.

Answer: C

NEW QUESTION 328

- (Topic 2)

Which of the following statements is true with regard to conducting an effective quality assurance and improvement program?

- A. The IIA's Quality Assessment Manual for the Internal Audit Activity must be used as the basis for periodic assessments.
- B. Members of the internal audit activity are not permitted to perform quality assessments, as they would not be independent.
- C. Periodic internal assessments provide the most current and independent recommendations for improvement.
- D. The conclusions of periodic internal assessments are intended to assist in achieving conformity to the Standards.

Answer: D

NEW QUESTION 331

- (Topic 2)

Which of the following responsibilities would fall under the role of the chief audit executive, rather than internal audit staff or the audit manager?

- A. Manage and support a quality assurance and improvement program.
- B. Maintain industry-specific knowledge appropriate to the audit engagements
- C. Set clear performance standards for internal auditors and the internal audit activity.
- D. Apply problem-solving techniques for routine situations.

Answer: C

NEW QUESTION 336

- (Topic 2)

According to IIA guidance, which of the following external groups is most likely to represent a liability risk, based on activities associated with the organization's corporate social responsibility program?

- A. Consumers.
- B. Activists.
- C. Suppliers.
- D. Investors.

Answer: B

NEW QUESTION 339

- (Topic 2)

A new internal audit activity is creating its first charter. According to IIA guidance, which of the following objectives would be appropriate for inclusion in the charter?

- A. Continuously monitor the organization's overall risk activities in relation to its risk appetite.
- B. Evaluate the adequacy and effectiveness of the organization's governance activities.
- C. Oversee the establishment and administration of an effective risk management program.
- D. Assist management in implementing recommended control improvements.

Answer: C

NEW QUESTION 344

- (Topic 2)

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

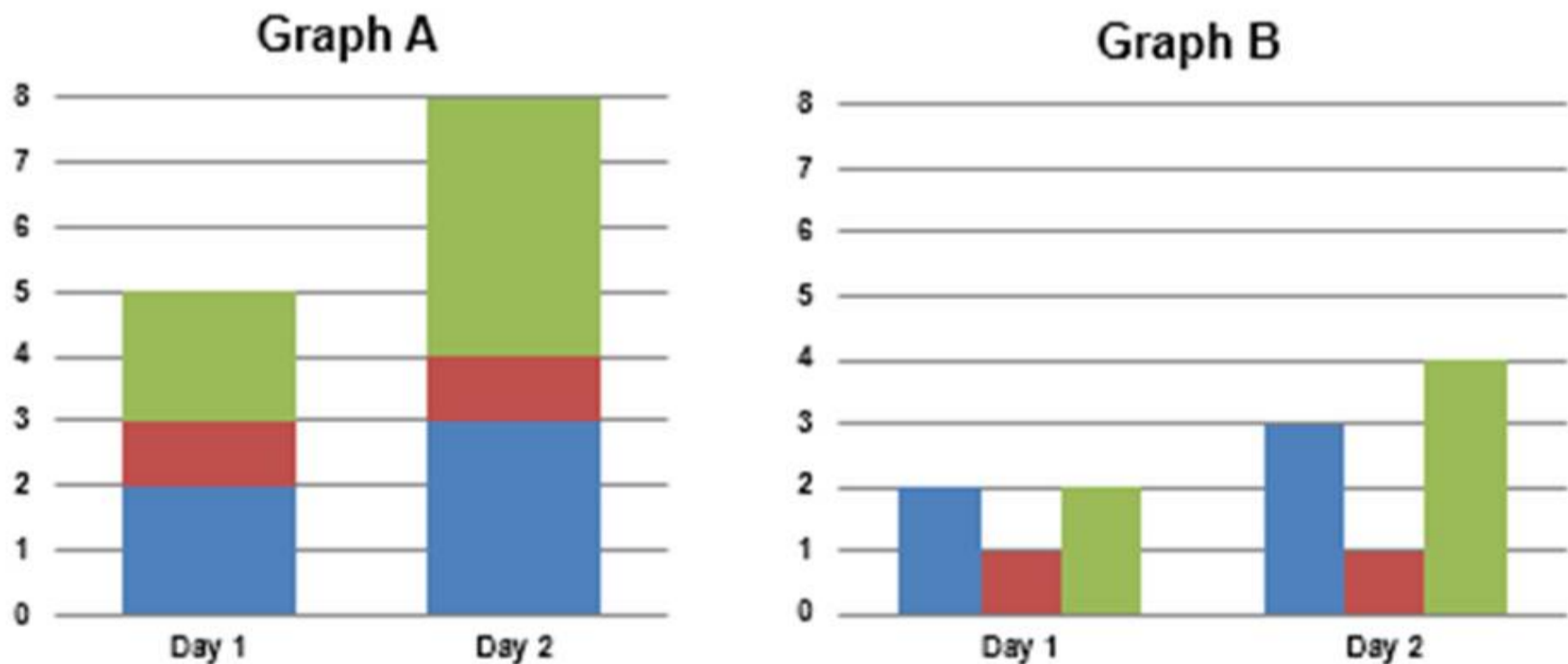
- A. An internal auditor evaluates the significant risks arising from a consulting engagement.
- B. An internal auditor declares that he would have a conflict of interest in providing planned audit support.
- C. An internal auditor has been given sufficient authority to access documents needed to make 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 348

- (Topic 2)

Click the Exhibit.



Internal auditors are asked to keep track of how many hours per day they spend planning the audit, conducting the engagement, and writing the audit report. The data for two days has been collected as follows:

- Day 1
- Day 2
- Planning the audit 2 hours
- 3 hours
- Conducting the engagement 1 hour
- 1 hour
- Writing the audit report 2 hours

4 hours

Which of the following graphs depicts the data accurately?

- A. Graph A only
- B. Graph B only
- C. Both A and B.
- D. Neither A nor B.

Answer: C

NEW QUESTION 351

- (Topic 2)

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 356

- (Topic 2)

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 360

- (Topic 2)

A fraud investigation was completed by management, and a proven fraud was communicated to relevant authorities. According to MA guidance, which of the following roles would be most appropriate for the internal audit activity to undertake after the investigation?

- A. Plan employee sessions and team building strategies for the organization to improve awareness of fraud among employees.
- B. Review the investigation and implement any improvements to the process.
- C. Conduct lessons learned sessions to ascertain how the fraud occurred and which controls failed.
- D. Determine why the fraud was not detected earlier and design controls to strengthen early detection.

Answer: C

NEW QUESTION 365

- (Topic 2)

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 370

- (Topic 2)

Which of the following actions would be characterized as a preventive control to safeguard inventory from the risk of theft?

- * 1. Locking doors and physically securing inventory items.
- * 2. Independently observing the receipt of materials.
- * 3. Conducting monthly inventory counts.
- * 4. Requiring the use of employee ID badges at all times.

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

Answer: B

NEW QUESTION 372

- (Topic 2)

An internal audit charter, approved by the board, restricts the internal audit activity to providing assurance only on the reliability of financial information and the effectiveness of internal accounting controls. Which of the following statements is true regarding the extent to which the external auditor may rely on the internal audit activity's work?

- A. The external auditor may make full use of the work, as the audit charter is very specific as to the work the internal audit activity may undertake.
- B. The external auditor may use the work, as the board has approved the charter, thus taking responsibility for any deficiencies.
- C. The external auditor must disregard the work, as the scope of the charter may introduce bias and result in a lack of due professional care.
- D. The external auditor may use the work with caution, due to the internal audit activity's scope and responsibility restrictions.

Answer: D

NEW QUESTION 377

- (Topic 2)

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 378

- (Topic 2)

According to IIA guidance, which of the following statements is true when an internal auditor performs consulting services that improve an organization's operations?

- A. The services must be aligned with those defined in the internal audit charter.
- B. The services must not be performed by the same internal auditor who performed assurance services, in order to maintain objectivity.
- C. The services may preclude assurance services from the consulting engagement.
- D. The services impose no responsibility to communicate information other than to the engagement client.

Answer: B

NEW QUESTION 382

- (Topic 2)

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 387

- (Topic 2)

Which of the following actions best demonstrates that an internal auditor is exercising due professional care?

- A. The auditor performs thorough reviews and provides absolute assurance of regulatory compliance.
- B. The auditor is alert to the possibility of fraud and activities where irregularities are most likely to occur.
- C. The auditor recommends improvements for all of the organization's procedures and practices.
- D. The auditor is cognizant of reducing travel expenses by combining a personal vacation with a business trip.

Answer: B

NEW QUESTION 389

- (Topic 2)

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 393

- (Topic 2)

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 394

- (Topic 2)

Which of the following best demonstrates the authority of the internal audit activity?

- A. Suggesting alternatives to decision makers.
- B. Improving the integrity of information.
- C. Determining the scope of internal audit services.
- D. Achieving engagement objectives.

Answer: C

NEW QUESTION 396

- (Topic 2)

An internal audit activity is using the auditing-by-element approach to audit the organization's controls around corporate social responsibility. Which of the following would be an element for the internal audit activity to consider?

- A. Working conditions.
- B. Employees' families.
- C. Marketplace competition.
- D. Shareholders and investors.

Answer: B

NEW QUESTION 401

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