

## Exam Questions IIA-CIA-Part1

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

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#### NEW QUESTION 1

According to IIA guidance, which of the following best describes internal auditors' responsibility regarding fraud?

- A. Internal auditors should take a leading role in investigating all fraud-related cases.
- B. Internal auditors must have sufficient knowledge to evaluate the risk of fraud.
- C. Internal auditors should report all fraud cases to law enforcement agents, in accordance with the Code of Ethics.
- D. Internal auditors are responsible for ensuring that fraud does not occur.

**Answer: B**

#### NEW QUESTION 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 3

An organization invests its savings in a volatile stock with the potential for high gains rather than a mutual fund with a lower expected return and lower volatility. This best describes which of the following risk concepts?

- A. Risk identification.
- B. Risk appetite.
- C. Risk capacity.
- D. Risk tolerance.

**Answer: D**

#### NEW QUESTION 4

Evidence discovered during the course of an engagement suggests that multiple incidents of fraud have occurred. There do not appear to be sufficient controls in place to prevent reoccurrence. Which of the following is the internal auditor's most appropriate next step?

- A. Immediately notify management of the area under review and the other internal auditors involved in the engagement.
- B. Discuss the situation with the engagement supervisor to determine whether fraud investigation experts are required to investigate the matter properly.
- C. Fully document in the workpapers the evidence that has been discovered and recommend appropriate controls to address the fraud.
- D. Provide the evidence that was discovered to local law enforcement for possible prosecution of the suspected fraud.

**Answer: A**

#### NEW QUESTION 5

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 6

Which of the following factors should be considered when determining the appropriate combination of manual techniques and computer-assisted audit techniques (CAATs) to be used during an audit?

- \* 1. Acceptance of CAATs findings by entity management.
- \* 2. Computer knowledge and expertise of the auditor.
- \* 3. Time constraints.
- \* 4. Level of audit risk.

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

**Answer: D**

#### NEW QUESTION 7

Reviewing prior audit reports and supporting workpapers before an engagement starts enables an internal auditor to do which of the following?

- \* 1. To understand better the activity and processes that will be audited.
- \* 2. To identify the audit procedures that will be used during the engagement.
- \* 3. To ensure that matters of greatest vulnerability will be addressed.
- \* 4. To use the information obtained as evidence in the current engagement.

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

**Answer: B**

#### NEW QUESTION 8

An internal auditor is using a spreadsheet application to review a cash flow forecast prepared by management. Which of the following correctly identifies the type of evidence this information represents?

- A. Competent, corroborative evidence of future working capital requirements.
- B. Sufficient, analytical evidence of the cash flow position at a given point of time in the future.
- C. Competent, documentary evidence of future cash flow changes within the organization.
- D. Sufficient, circumstantial evidence of the future solvency of the organization.

**Answer: C**

#### NEW QUESTION 9

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 top management 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 10

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 10

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

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

**Answer: B**

#### NEW QUESTION 11

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

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

**Answer: C**

#### NEW QUESTION 13

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

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

**Answer: B**

#### NEW QUESTION 18

According to the International Professional Practices Framework, which of the following are allowable activities for an internal auditor?

- \* 1. Advocating the establishment of a risk management function.
- \* 2. Identifying and evaluating significant risk exposures during audit engagements.
- \* 3. Developing a risk response for the organization if there is no chief risk officer.
- \* 4. Benchmarking risk management activities with other organizations.
- \* 5. Documenting risk mitigation strategies and techniques.

- A. 4 and 5 only.
- B. 1,2, and 3 only.
- C. 1,2, 4, and 5 only.
- D. 2, 3, 4, and 5 only.

**Answer: C**

#### NEW QUESTION 20

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

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

**Answer: B**

#### NEW QUESTION 25

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 26

According to IIA guidance, when preparing the charter for the internal audit activity, the chief audit executive (CAE), board, and senior management should agree on which of the following?

- \* 1. The standards to be used by the internal audit activity.
- \* 2. The internal audit activity's code of ethics.
- \* 3. The CAE's reporting line.
- \* 4. The internal audit activity's responsibilities.

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

**Answer: C**

#### NEW QUESTION 30

In which of the following functions would fraud be most likely to occur?

- A. Maintaining custody of inventory records.
- B. Collecting payments on accounts.
- C. Approving changes to employee records.
- D. Preparing customer statements.

**Answer: B**

#### NEW QUESTION 32

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 34

Which of the following is true regarding the use of a formal risk management framework?

- \* 1. It facilitates a methodical approach to risk mitigation.
- \* 2. It defines and standardizes the terminology used in risk communication.
- \* 3. It establishes the risk tolerance levels to be accommodated in the strategy.
- \* 4. It facilitates the alignment of risk mitigation strategies with management priorities.

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

Answer: B

#### NEW QUESTION 36

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 37

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 40

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 44

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 47

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 52

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 55

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 56

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

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

**Answer: B**

#### NEW QUESTION 60

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 64

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 67

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 69

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 73

While preparing for an audit of senior management expenses, the chief audit executive (CAE) learns that management is unable to locate a number of original expense claims to support the related disbursements. She decides to defer the engagement until they can be located. Which of the following principles likely guided the CAE's decision?

- A. Objectivity.
- B. Proficiency.
- C. Independence.
- D. Due professional care.

Answer: D

#### NEW QUESTION 77

A credit card company detects potential errors in credit card numbers by checking whether all entered numbers contain the correct amount of digits. This is an example of which of the following IT controls?

- A. Logic test.
- B. Check digits.
- C. Data integrity tests.
- D. Balancing control activities.

Answer: A

#### NEW QUESTION 80

Which of the following best explains why integrity is a necessary personal quality for internal auditors at all levels?

- A. Internal auditor integrity enables stakeholders to constantly question the work of the internal audit activity.
- B. Internal auditor integrity enables the internal auditor to avoid being challenged by any party in the organization.
- C. Internal auditor integrity enables the internal audit activity to be able to demonstrate independence.
- D. Internal auditor integrity enables users of internal auditors' work to make important business decisions.

Answer: D

#### NEW QUESTION 81

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 83

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 87

Which of the following options is the most cost-effective and efficient way for internal auditors to keep current with the latest developments in the internal audit profession?

- A. Attending annual professional conferences and seminars.
- B. Participating in on-the-job training in various departments of the organization.
- C. Pursuing as many professional certifications as possible.
- D. Maintaining membership in The IIA and similar professional organizations and subscribing to relevant email updates or news feeds.

Answer: D

#### NEW QUESTION 88

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 92

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

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

**Answer: B**

**NEW QUESTION 97**

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 100**

Which of the following is the most common method of fraud detection?

- A. Analytical reviews of high-risk areas.
- B. Detective controls built into the daily processes.
- C. Unannounced audits or reviews of programs or departments.
- D. Tips received from employees or citizens.

**Answer: D**

**NEW QUESTION 101**

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 106**

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