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Topic Break Down

Topic	No. of Questions
Topic 1, Essentials of Internal Auditing	182
Topic 2, Practice of Internal Auditing	108
Topic 3, Business Knowledge for Internal Auditing	314
Total	604

QUESTION NO: 1

Which of the following statements is most accurate with respect to various forms, elements, and characteristics of business contracts?

- A. A contract is a tool used by both suppliers and customers, the model and complexity of which generally remains constant
- B. Collaboration during contract negotiation encourages stakeholders to develop consensus but typically increases cycle times and the likelihood that the contract will fail
- C. Differing legal requirements affect the attitudes of contracting parties as well as the length content and language of contracts
- D. A contract is a tool used by both suppliers and customers though it offers commercial assurance of the relationship, purely from a customer perspective

ANSWER: C

QUESTION NO: 2

Which of the following components should be included in an audit finding?

1. The scope of the audit.
 2. The standard(s) used by the auditor to make the evaluation.
 3. The engagement's objectives.
 4. The factual evidence that the internal auditor found in the course of the examination.
- A. 1 and 2
 - B. 1 and 3 only
 - C. 2 and 4
 - D. 1, 3, and 4

ANSWER: C

QUESTION NO: 3

Which of the following statements regarding organizational governance is not correct?

- A. An effective internal audit function is one of the four cornerstones of good governance.

- B. Those performing governance activities are accountable to the customer.
- C. Accountability is one of the key elements of organizational governance.
- D. Governance principles and the need for an internal audit function are applicable to governmental and not-for-profit activities.

ANSWER: B

QUESTION NO: 4

According to the COSO enterprise risk management (ERM) framework, which of the following is not a typical responsibility of the chief risk officer?

- A. Establishing risk category definitions and a common risk language for likelihood and impact measures.
- B. Defining ERM roles and responsibilities.
- C. Providing the board with an independent, objective risk perspective on financial reporting.
- D. Guiding integration of ERM with other management activities.

ANSWER: C

QUESTION NO: 5

According to IIA guidance, which of the following would not be a consideration for the internal audit activity (IAA) when determining the need to follow-up on recommendations?

- A. Degree of effort and cost needed to correct the reported condition.
- B. Complexity of the corrective action.
- C. Impact that may result should the corrective action fail.
- D. Amount of resources required to conduct the follow-up activities.

ANSWER: D

QUESTION NO: 6

Which of the following types of social responsibilities is voluntary and guided purely by the organization's desire to make social contributions?

- A. The bottom of the pyramid responsibility.
- B. Innovative responsibility.
- C. Ethical responsibility.
- D. Discretionary responsibility.

ANSWER: C

QUESTION NO: 7

A small furniture-manufacturing firm with 100 employees is located in a two-story building and does not plan to expand. The furniture manufactured is not special-ordered or custommade. The most likely structure for this organization would be:

- A. Functional departmentalization.
- B. Product departmentalization.
- C. Matrix organization.
- D. Divisional organization.

ANSWER: A

QUESTION NO: 8

Which of the following describes the free trade zone in an e-commerce environment?

- A. Zone that separates an organization's servers from outside forces.
- B. Area in which messages are scrutinized to determine if they are authorized.
- C. Area where communication and transactions occur between trusted parties.
- D. Zone where data is encrypted, users are authenticated, and user traffic is filtered.

ANSWER: C

QUESTION NO: 9

An organization's account for office supplies on hand had a balance of \$9,000 at the end of year one. During year two, the organization recorded an expense of \$45,000 for purchasing office supplies. At the end of year two, a physical count determined that the organization has \$11,500 in office supplies on hand. Based on this information, what would be recorded in the adjusting entry at the end of year two?

- A. A debit to office supplies on hand for \$2,500
- B. A debit to office supplies on hand for \$11,500
- C. A debit to office supplies on hand for \$20,500
- D. A debit to office supplies on hand for \$42,500

ANSWER: A

QUESTION NO: 10

Which of the following is not an objective of internal control?

- A. Compliance.
- B. Accuracy.
- C. Efficiency.
- D. Validation.

ANSWER: D

QUESTION NO: 11

An internal auditor submitted a report containing recommendations for management to enhance internal controls related to investments. To follow up, which of the following is the most appropriate action for the internal auditor to take?

- A. Observe corrective measures.
- B. Seek a management assurance declaration.
- C. Follow up during the next scheduled audit.
- D. Conduct appropriate testing to verify management responses.

ANSWER: D

QUESTION NO: 12

Which of the following best describes the purpose of disaster recovery planning?

- A. To reconstitute systems efficiently following a disruptive event.
- B. To define rules on how devices within the system should communicate after a disaster.
- C. To describe how data should move from one system to another system in case of an emergency.
- C. To establish a protected area of network that is accessible to the public after a disaster

ANSWER: A

QUESTION NO: 13

While conducting an audit of a third party's Web-based payment processor, an internal auditor discovers that a programming error allows customers to create multiple accounts for a single mailing address. Management agrees to correct the program and notify customers with multiple accounts that the accounts will be consolidated. Which of the following actions should the auditor take?

1. Schedule a follow-up review to verify that the program was corrected and the accounts were consolidated.
 2. Evaluate the adequacy and effectiveness of the corrective action proposed by management.
 3. Amend the scope of the subsequent audit to verify that the program was corrected and that accounts were consolidated.
 4. Submit management's plan of action to the external auditors for additional review.
- A. 1 and 2
 - B. 1 and 4
 - C. 2 and 3
 - D. 3 and 4

ANSWER: A

QUESTION NO: 14

The market price is the most appropriate transfer price to be charged by one department to another in the same organization for a service provided when:

- A. There is an external market for that service.
- B. The selling department operates at 50 percent of its capacity.
- C. The purchasing department has more negotiating power than the selling department.

D. There is no external market for that service.

ANSWER: A

QUESTION NO: 15

An internal auditor is conducting an assessment of the purchasing department. She has worked the full amount of hours budgeted for the engagement; however, the audit objectives are not yet complete. According to IIA guidance, which of the following are appropriate options available to the chief audit executive?

1. Allow the auditor to decide whether to extend the audit engagement.
2. Determine whether the work already completed is sufficient to conclude the engagement.
3. Provide the auditor feedback on areas of improvement for future engagements.
4. Provide the auditor with instructions and directions to complete the audit.

A. 1, 2, and 3

B. 1, 2, and 4

C. 1, 3, and 4

D. 2, 3, and 4

ANSWER: D

QUESTION NO: 16

Which of the following strategies is most appropriate for an industry that is in decline?

- A. Invest in marketing.
- B. Invest in research and development.
- C. Control costs.
- D. Shift toward mass production.

ANSWER: C

QUESTION NO: 17

For employees, the primary value of implementing job enrichment is which of the following?

- A. Validation of the achievement of their goals and objectives.
- B. Increased knowledge through the performance of additional tasks.
- C. Support for personal growth and a meaningful work experience.
- D. An increased opportunity to manage better the work done by their subordinates.

ANSWER: C

QUESTION NO: 18

Which of the following statements about matrix organizations is false?

- A. In a matrix organization, conflict between functional and product managers may arise. B. In a matrix organization, staff under dual command is more likely to suffer stress at work.
- B. Matrix organizations offer the advantage of greater flexibility.
- C. Matrix organizations minimize costs and simplify communication.

ANSWER: C

QUESTION NO: 19

When constructing a staffing schedule for the internal audit activity (IAA), which of the following criteria are most important for the chief audit executive to consider for the effective use of audit resources?

1. The competency and qualifications of the audit staff for specific assignments.
 2. The effectiveness of IAA staff performance measures.
 3. The number of training hours received by staff auditors compared to the budget.
 4. The geographical dispersion of audit staff across the organization.
- A. 1 and 3
 - B. 1 and 4
 - C. 2 and 3
 - D. 2 and 4

ANSWER: B

QUESTION NO: 20

When auditing an application change control process, which of the following procedures should be included in the scope of the audit?

1. Ensure system change requests are formally initiated, documented, and approved.
2. Ensure processes are in place to prevent emergency changes from taking place.
3. Ensure changes are adequately tested before being placed into the production environment.
4. Evaluate whether the procedures for program change management are adequate.

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

ANSWER: D