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Practice of Internal Auditing

IIA IIA-CIA-Part2

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Topic Break Down

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QUESTION NO: 1

The most effective way for internal auditors to enhance the reliability of computerized financial and operating information is by:

- A. Determining if controls over record keeping and reporting are adequate and effective.
- B. Reviewing data provided by information systems to test compliance with external requirements.
- C. Determining if information systems provide management with timely information.
- D. Determining if information systems provide complete information.

ANSWER: A

QUESTION NO: 2

Information gathered in a forensic investigation of business fraud is usually gathered with which of the following standards in mind?

- A. Generally Accepted Auditing Standards.
- B. Generally Accepted Accounting Principles.
- C. The International Professional Practices Framework.
- D. Legal evidence.

ANSWER: D

QUESTION NO: 3

Which of the following engagement supervision activities should be performed first?

- A. Ensure that internal audit recommendations are practical, cost-effective, and value-added
- B. Ensure that internal audit conclusions are based on sufficient and reliable evidence
- C. Ensure that risks to the timely completion of the engagement are assessed
- D. Ensure that performance assessments are completed for audit team members

ANSWER: C

QUESTION NO: 4

How do internal auditors generally determine the priority of the areas within the engagement scope?

- A. By calculating the period of time when the area was last audited by internal auditors
- B. By totaling the monetary value of the processes within the organization in the scope of the engagement
- C. By counting the number of red flags indicating the potential fraudulent activities within the area.
- D. By estimating the likelihood of a risk occurring and the potential impact of that risk on the organization

ANSWER: D

QUESTION NO: 5

The head of customer service asked the chief audit executive (CAE) whether external auditors could assist her staff with conducting a risk self-assessment in the customer service department. The CAE promised to meet with customer service managers to analyze relevant business processes, and come up with a proposal. Who is most likely to be the final approver of the engagement objectives and scope?

- A. Senior management of the organization
- B. The chief audit executive
- C. The head of customer service
- D. The board of directors

ANSWER: D

QUESTION NO: 6

Reviewing internal audit report drafts with clients is:

- 1. Required according to the Standards.
 - 2. A form of courtesy.
 - 3. Ethically mandated.
 - 4. A form of validation.
- A. 1 and 2 only
 - B. 2 and 3 only
 - C. 2 and 4 only
 - D. 3 and 4 only

ANSWER: C

QUESTION NO: 7

An internal auditor notices that a division has recorded uncharacteristically high sales and gross margins for the past three months and now suspects the division is reporting fictitious sales. Which course of action should the auditor follow to determine whether fraud has occurred?

- A. Trace a sample of shipping documents to related sales invoices to verify proper billing.
- B. Send accounts receivable balance confirmations to customers.
- C. Compare the division's sales and gross margins to those of the prior three-month period.
- D. Estimate the sales and cost of goods sold for the three-month period by using regression analysis.

ANSWER: B

QUESTION NO: 8

The following is an excerpt from an audit engagement workpaper:

- A Company
- Accounts Receivable ▪ Date

Objective. To determine if the computer system is correctly recording all accounts receivable transactions.

Procedures: Judgmental selection of a sample of all accounts receivable balances greater than \$50,000 for positive confirmation of balances.

Conclusion: Based on the results of testing wherein all but three confirmations were returned, the accounts receivable balance is fairly presented in all material respects.

Which of the following is true regarding the workpaper?

- A. It is not appropriate to judgmentally select a sample when testing accounts receivable.
- B. A conclusion should be reached only for the results of overall testing, not for individual procedures.
- C. The audit procedures used are not consistent with the audit objective.
- D. The format of the workpaper does not conform to the standard format for workpapers.

ANSWER: C

QUESTION NO: 9

A company's policy requires that all customers be treated in a fair and consistent manner. Which of the following audit procedures would provide the most persuasive evidence that the policy was followed?

- A. Compare the aging of outstanding receivables due from each customer.
- B. Compare credit reports with annual sales for a sample of customers.
- C. Compare the ratio of outstanding receivables to the authorized credit limit for each customer.
- D. Compare the sales discounts offered to each customer.

ANSWER: D

QUESTION NO: 10

An audit of an organization's claims department determined that a large number of duplicate payments had been issued due to problems in the claims processing system. During the exit conference, the vice president of the claims department informed the auditors that attempts to recover the duplicate payments would be initiated immediately and that the claims processing system would be enhanced within six months to correct the problems. Based on this response, the chief audit executive should:

- A. Adjust the scope of the next regularly scheduled audit to assess controls within the claims processing system.
- B. Discuss the findings with the audit committee and ask the committee to determine the appropriate follow-up action.
- C. Schedule a follow-up engagement within six months to assess the status of corrective action.
- D. Monitor the status of corrective action and schedule a follow-up engagement when appropriate.

ANSWER: D

QUESTION NO: 11

Which of the following would most likely prompt special notification from the chief audit executive to same management?

- A. Operational management has decided to weigh an audit issue against the organization's risk tolerance
- B. A controls inaccurate operation has materially impacted the accuracy of the poor year's financial statements
- C. Occurrences of asset misappropriation have been identified as a result of an ineffective operational control design
- D. The controls that management performed to confirm compliance with health and safety standards were not systematically documented

ANSWER: A

QUESTION NO: 12

After completing a net present value (NPV) calculation on a proposed project, an analyst explores the change in NPV with changes in the interest rate. This additional analysis is referred to as:

- A. Decision analysis.
- B. simulation.
- C. Sensitivity analysis.
- D. Variance analysis.

ANSWER: C

QUESTION NO: 13

An internal auditor has been assigned to perform a quality audit on a manufacturing plant. Which course of action should the auditor perform first?

- A. Compare the planned outputs with the actual outputs.
- B. Ascertain the costs of materials purchased.
- C. Evaluate the plant's ability to meet production quotas.
- D. Review the levels of scrap and rework.

ANSWER: D

QUESTION NO: 14

Which of the following manual audit approaches describes testing the validity of a document by following it backward to a previously prepared record?

- A. Tracing
- B. Reperformance
- C. Vouching
- D. Walkthrough

ANSWER: B

QUESTION NO: 15

Which of the following statements is true pertaining to interviewing a fraud suspect?

1. Information gathered can be subjective as well as objective to be useful.
2. The primary objective is to obtain a voluntary written confession.
3. The interviewer is likely to begin the interview with open-ended questions.
4. Video recordings always should be used to provide the highest quality evidence.

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

ANSWER: C

QUESTION NO: 16

According to the Standards, which of the following objectives is not required to ensure the appropriate completion of an engagement?

- A. Determining audit team members are coordinated to ensure the efficient execution of all engagement procedures.
- B. Confirming engagement working papers properly support the observations, recommendations and conclusions.
- C. Providing structured learning opportunities for engagement auditors when and wherever possible.
- D. Ensuring all engagement objectives are reviewed for satisfactory achievement and properly documented.

ANSWER: C

QUESTION NO: 17

The internal auditor and her supervisor are in dispute about a risk that was not tested during an audit of the procurement function. Which of the following tools would best support the auditor's decision not to test the risk?

- A. A spaghetti map
- B. A heat map.
- C. A process map
- D. An assurance map

ANSWER: B

QUESTION NO: 18

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

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

ANSWER: D

QUESTION NO: 19

What is the primary factor that determines the depth and breadth of audit follow-up?

- A. The engagement client's written response to the audit findings.
- B. The auditor's assessment of risk associated with the audit findings.
- C. The auditor's assessment of personnel responsible for correcting audit findings.
- D. The availability of audit personnel and financial resources.

ANSWER: B

QUESTION NO: 20

Which of the following types of internal audit consulting engagements is an example of a facilitation service?

- I. Conducting control self-assessment workshops.
 - II. Participating on standing committees.
 - III. Reviewing regulatory compliance.
 - IV. Benchmarking.
 - V. Estimating savings from outsourcing processes.
- A. I and IV only
 - B. I, III, and IV only
 - C. II, III, and V only
 - D. I, II, III, IV, and V.

- E. Conducting control self-assessment workshops.
 - II. Participating on standing committees.
 - III. Reviewing regulatory compliance.
 - IV. Benchmarking.
- F. Estimating savings from outsourcing processes.

ANSWER: A