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NEW QUESTION: 1

Which of the following is the best way for an internal auditor to demonstrate due professional care?

- A. Execute internal audit work in such a manner as to provide absolute assurance of compliance
- B. Request and receive client feedback surveys during the engagement
- C. Seek feedback from the engagement supervisor during the engagement
- D. Conduct an audit to the same extent that another prudent auditor would under similar circumstances

Answer: D (LEAVE A REPLY)

NEW QUESTION: 2

The chief audit executive (CAE) of a new internal audit activity is creating an internal audit charter According to IIA guidance, which of the following terms is most likely to be included in the charter?

- A. Internal auditors will demonstrate competence, concern, and the dedication expected of a professional,
- B. Internal auditors will receive performance-based compensation, including bonuses for reporting more than a stipulated number of observations.
- C. Internal auditors will advise on the design of control policies and procedures in any area where the organization does not possess the requisite expertise,
- D. Senior management will be present whenever the CAE interacts with the board, to ensure effective communication among all three parties.

Answer: (SHOW ANSWER)

NEW QUESTION: 3

Which of the following specifications in an internal audit charter is the most important factor in the internal audit activity's independence?

- A. Description of internal audit activity's responsibilities
- B. Description of internal audit activity's reporting structure
- C. Statement of internal audit activity's authority
- D. Definition of internal auditing

Answer: B (LEAVE A REPLY)

NEW QUESTION: 4

Sometimes, internal audit staff may partner with operating managers to rank risks. Which of the following outcomes may be the most beneficial aspects of this strategy?

1. Reappraising risks levels.
2. Providing accurate information to management.
3. Marketing the internal audit activity.
4. Planning safeguards for assets in high-risk areas.

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

Answer: B (LEAVE A REPLY)

Section: Volume F

NEW QUESTION: 5

Which of the following represents a deficiency in the control environment?

- A. The sales department has failed to achieve targets for the last nine months.
- B. Employees report suspicious activity by calling the organization's ethics hotline.
- C. Hiring procedures do not include background checks for prospective job candidates.
- D. Management reports three potential ethics issues to the board of directors.

Answer: C (LEAVE A REPLY)

A deficiency in the control environment is represented by hiring procedures not including background checks for prospective job candidates. This lack of background checks can lead to hiring personnel who may not have integrity or the appropriate qualifications, increasing risk to the organization. References: COSO Framework, which discusses components of a strong control environment, including the importance of conducting thorough background checks as part of personnel standards.

NEW QUESTION: 6

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

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 7

In a well-developed management environment, the internal audit activity would:

- A. Interface primarily with senior management, minimizing interactions with line managers who are the subjects of internal audit work.
- B. Report the results of audit engagements to line management as well as to senior management.
- C. Focus on the maintenance of accounting controls (such as segregation of the duties of authorization, recording, and custody) and report results to the audit committee.
- D. Conduct regularly scheduled audits of existing systems and initial audits of new computer systems after they have begun operating.

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 8

An internal auditor found that his organization did not make a disclosure that is required by law.

However, the auditor decided not to raise an audit finding. Which of the following Code of Ethics principles was violated?

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

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 9

Which of the following is a way to demonstrate an individual internal auditor's competency through continuing professional development?

- A. Create different training budgets for each of the internal auditors
- B. Define average training hours per auditor as a team performance measure
- C. Analyze internal audit client survey feedback following audits
- D. Review training records for all internal auditors

Answer: ([SHOW ANSWER](#))

Reviewing training records for all internal auditors is a way to demonstrate an individual internal auditor's competency through continuing professional development. This method ensures that each auditor's training aligns with required competencies and standards, providing a clear record of professional development activities.

IIA standards on assessing professional competencies and continuing education.

NEW QUESTION: 10

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: ([SHOW ANSWER](#))

The most effective and appropriate role for the internal audit activity with regard to IT governance is to assess whether governance activities are aligned with the organization's risk appetite and take into consideration emerging risks. This role involves evaluating the adequacy and effectiveness of the organization's IT governance framework, ensuring that IT-related decisions and activities align with strategic objectives and manage IT risks effectively. References: IIA Global Technology Audit Guide (GTAG) on IT Governance

NEW QUESTION: 11

An internal auditor is using mean-per-unit sampling to estimate the value of health benefit claims for a period. The auditor's desired precision is \$20, 000. If the achieved precision is \$10, 000, which of the following conditions is implied?

- A.** The value of claims is overstated.
- B.** The standard deviation is smaller than expected.
- C.** The standard deviation is larger than expected.
- D.** The value of claims is understated.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 12

There is a growing perception that employees generally evade their responsibilities. What impact will an internal auditor most likely see during an engagement?

- A.** Employees are likely to be supervised closely and given little freedom.
- B.** Peer employees are likely to trust one another, but distrust management.
- C.** Employees are likely to join forces to accomplish their duties as teams.

D. Supervisors are likely to reduce their level of supervision and increase span of control.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 13

According to IIA guidance, which of the following activities would typically be examined when using the maturity model approach for assessing an organization's risk management program?

- A. Monitor and review
- B. Performance measurement.
- C. Setting the context.
- D. Communication.

Answer: A (LEAVE A REPLY)

According to the IIA guidance on using the maturity model for assessing an organization's risk management program, a key activity to examine is "Monitor and Review." This element evaluates how well the organization continues to monitor its risk environment and reviews the effectiveness of risk management strategies over time. It is crucial for ensuring that risk management adapts to changes and continues to align with organizational objectives. References: Institute of Internal Auditors (IIA) - Guidance on Risk Management Maturity Models

NEW QUESTION: 14

Which of the following tools would be most useful to an internal auditor performing an assessment of the effectiveness of the organization's risk responses?

- A. Heat map.
- B. Risk register.
- C. Process map.
- D. Risk and control matrix.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 15

During an account receivables audit, an internal auditor found a significant number of input errors resulting in a \$500, 000 balance understatement.

Which of the following is the most important question the internal auditor should ask to develop an appropriate recommendation for this finding?

- A. Who?
- B. How?
- C. Why?
- D. When?

Answer: (SHOW ANSWER)

Section: Volume E

NEW QUESTION: 16

Which of the following is true about corporate social responsibility (CSR)?

- A. Social and environmental considerations are required parts of an organization's decision making
- B. The Global Reporting Initiative provides standards on required disclosures of CSR.
- C. CSR activities are overseen and managed by operational management.
- D. Internal auditors can provide assurance on reported sustainability results.

Answer: D (LEAVE A REPLY)

Internal auditors can indeed provide assurance on reported sustainability results. This involves evaluating the accuracy and completeness of an organization's sustainability reporting and verifying that the reported information reflects actual performance. This role aligns with the broader assurance and advisory functions of internal audit, ensuring that CSR disclosures are reliable and credible.

The Institute of Internal Auditors (IIA) Standards and Practice Advisories.

Global Reporting Initiative (GRI) Standards.

"Internal Auditing: Assurance & Advisory Services" by IIA, Chapter on CSR and Sustainability Reporting.

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NEW QUESTION: 17

An internal quality assessment of the internal audit activity should provide the chief audit executive with.

- A. Recommendations for improvement.
- B. Objectives for internal audit engagements.
- C. Confirmation of action on past audit recommendations.
- D. Appraisals of internal audit staff performance.

Answer: A (LEAVE A REPLY)

Section: Volume B

NEW QUESTION: 18

Which of the following circumstances would most likely be considered a potential red flag for fraud by the internal audit activity?

- A. The monthly payroll reports are not vetted to ensure terminated employees have been removed from the payroll system
- B. The volume of nonroutine journal entries has steadily increased over time.
- C. The database of approved suppliers has not been reviewed the last year
- D. The recent employee survey indicates that some employees remain unaware of the organization's whistleblower hotline.

Answer: (SHOW ANSWER)

The most likely potential red flag for fraud by the internal audit activity in the given scenarios is when monthly payroll reports are not vetted to ensure terminated employees have been removed from the payroll system. This situation can lead to payments to non-existent ("ghost") employees, a common fraud scheme, and represents a significant control weakness that could be exploited for fraudulent purposes. References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 19

Which of the following is an example of a risk avoidance strategy?

- A. Installing cameras in the mailroom
- B. Insuring all fixed assets
- C. Exiting a product line
- D. Outsourcing the payroll function

Answer: C (LEAVE A REPLY)

NEW QUESTION: 20

An organization has limited resources to spend on corporate social responsibility initiatives. Which is the most suitable approach to determine how these resources should be used?

- A. Support a mix of environmental economic and social initiatives to ensure a balanced approach is taken
- B. Survey employees and external stakeholders to see which causes are best suited to the organization.
- C. Select corporate social responsibility initiatives that support the overall strategic goals of the organization
- D. Conduct a financial analysis to determine where the most impact can be made with the budget available

Answer: C (LEAVE A REPLY)

The most suitable approach for an organization with limited resources to spend on corporate social responsibility (CSR) initiatives is to select initiatives that support the overall strategic goals of the organization. Aligning CSR initiatives with the organization's strategic goals ensures that resources are used effectively and contribute to long-term value creation. This approach helps in enhancing the organization's reputation, stakeholder engagement, and competitive advantage by focusing on areas where the organization can make the most significant impact in alignment with its mission and values.

References:

* The IIA Standards: Standard 2010 - Planning: "The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals."

* IIA Practice Guide: "Assessing Organizational Governance in the Public Sector": Highlights the importance of aligning initiatives with strategic goals for effective governance.

NEW QUESTION: 21

Which of the following is a detective control strategy against fraud?

- A. Requiring employees to attend ethics training.
- B. Performing background checks on employees.
- C. Implementing a control self-assessment.
- D. Performing a surprise audit

Answer: D (LEAVE A REPLY)

Performing a surprise audit is a detective control strategy against fraud. Surprise audits can uncover irregularities and fraudulent activities that might not be detected through routine audit procedures. By their unexpected nature, they can serve as a deterrent against fraud and help identify breaches in internal controls.

References: IIA guidance on control activities and fraud prevention

NEW QUESTION: 22

Who is held responsible for oversight of the organization's risk management framework?

- A. Operational management.
- B. Board of directors.
- C. Internal auditors.
- D. Head of risk management.

Answer: B (LEAVE A REPLY)

The oversight of an organization's risk management framework is primarily the responsibility of the board of directors. The board's role includes ensuring that risk management processes are integrated with overall organizational processes and that the strategies and policies regarding risk management are effectively managed and aligned with the organization's objectives. Operational management, internal auditors, and the head of risk management each play roles within the framework established by the board but do not have overall oversight responsibility. References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 23

New credit policies have been implemented in an automated order-entry system to improve the collection of receivables. Sales management has compiled several examples that show decreased sales and delayed order entry, and contends that these examples are

a direct result of the new credit-policy constraints. Sales management's data and information provide:

- A. Evidence that the new credit policies do not meet the stated corporate objective to improve collections.
- B. Irrelevant and argumentative information.
- C. Feedback control data.
- D. A statistically valid conclusion about the impact of the new credit policies on customer goodwill.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 24

An internal audit activity has made a preliminary determination that a division of the organization has employed improper accounting practices. Upon being informed, the head of the organization instructs the chief audit executive (CAE) to cease the investigation and to withhold the information from external auditors. Which course of action should the CAE follow?

- A. Report the communication to the organization's general counsel.
- B. Inform the external auditors of the findings and the mandate to stop investigating.
- C. Report the instruction to the chairperson of the audit committee.
- D. Inform the head of the organization that the investigation will continue as planned.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 25

According to IIA guidance, which of the following is a required aspect of an internal audit charter?

- A. Management approval
- B. Independent review
- C. Reporting relationships
- D. Quarterly assessment

Answer: ([SHOW ANSWER](#))

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. According to IIA standards, the internal audit charter must define the reporting relationships within the organization, which facilitates the independence and objectivity of the internal audit function. The inclusion of reporting relationships ensures that there is clear communication and understanding regarding the internal audit activity's position within the organization. References:

* IIA Standard 1000: "Purpose, Authority, and Responsibility"

NEW QUESTION: 26

Which of the following statements is correct regarding disclosure of conformance or nonconformance with the Standards?

- A.** The chief audit executive must disclose every instance of noncompliance with the Code of Ethics or the Standards.
- B.** Once an external assessment validates conformance with the Standards, the internal audit activity may continue to use the statement until the next external assessment.
- C.** If it has been more than five years since the last external assessment was conducted, the Internal audit activity must cease indicating that it operates in conformance with the Standards.
- D.** An internal audit activity that has been in existence fewer than five years cannot indicate that it is operating in conformance with the Standards because it has not yet undergone an external assessment.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 27

According to IIA guidance, which of the following statements is true regarding proficiency?

- A.** Specialty designations are required for those who perform specialized audit and consulting work.
- B.** The globally accepted Certified Internal Auditor designation is mandatory at chief audit executive levels.
- C.** Studies for professional designations are the preferred source of continuing professional education
- D.** Internal auditors are encouraged to obtain appropriate professional designations.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 28

Which of the following should be the first step that an internal auditor takes to establish data integrity when building an audit working copy of a large database?

- A.** Review the data for statistical patterns.
- B.** Search for anomalies in the extracted information.
- C.** Ensure that the data is efficiently organized within the database.
- D.** Verify that all required data was downloaded.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 29

Which of the following is an indicator that an organization's risk management processes are effective?

- A.** Departmental objectives are managed by department heads and are independent of the organization's mission.
- B.** Organization wide mechanisms exist to enable the identification and assessment of all significant risks.
- C.** Department heads have the autonomy to determine risk responses that fall outside of the organizations risk appetite

D. Relevant risk information is captured and communicated primarily between management and the board

Answer: B (LEAVE A REPLY)

An indicator that an organization's risk management processes are effective is that organization-wide mechanisms exist to enable the identification and assessment of all significant risks. This approach ensures that risks are managed on an enterprise-wide basis, aligning risk management strategies with the organization's objectives and promoting a comprehensive understanding and management of risks throughout the entity. References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF), Risk Management in Practice

NEW QUESTION: 30

According to The IIA's Code of Ethics, which of the following is true?

- A. Integrity requires that auditors perform internal audit services in accordance with the Standards.
- B. Objectivity requires that auditors perform their work with honesty, diligence, and responsibility.
- C. Confidentiality requires that auditors be prudent in the use and protection of client information.
- D. Confidentiality requires that auditors disclose all material facts known to them.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 31

Management assessed the organization's risk of expanding operations into a new, but volatile, region and began looking for a compatible local partner to manage sales and distribution. Which of the following best describes this risk management technique?

- A. Avoidance.
- B. Acceptance.
- C. Sharing
- D. Reduction.

Answer: D (LEAVE A REPLY)

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NEW QUESTION: 32

Operational management in the IT department has developed key performance indicator reports, which are reviewed in detail during monthly staff meetings. This activity is designed to prevent which of the following conditions?

- A. Knowledge/skills gap,
- B. Monitoring gap.
- C. Accountability/reward failure,
- D. Communication failure.

Answer: D (LEAVE A REPLY)

The development and detailed review of key performance indicator (KPI) reports during monthly staff meetings primarily address potential communication failures. This activity ensures that all team members are aware of the department's performance, expectations, and areas needing attention, thus enhancing transparency and communication within the department.

Management and organizational theory on performance management and communication;
IIA guidance on operational effectiveness.

NEW QUESTION: 33

An internal auditor audited a department store's cash function. Which of the following actions would indicate a lack of due professional care by the auditor?

- A. Based on a well-designed system of internal controls over the cash function, the audit report assured senior management that no irregularities existed.
- B. A flowchart of the entire cash function was developed but only samples of transactions were tested.
- C. The audit report included a well-supported recommendation for a reduction in staff even though such a reduction might adversely impact morale.
- D. The auditor informed appropriate authorities within the organization about suspected wrongdoing but did not inform external authorities.

Answer: A (LEAVE A REPLY)

Section: Volume C

Explanation/Reference:

NEW QUESTION: 34

During the planning phase of an audit of suspected overbilling on contracts for security services, an auditor should perform all of the following except:

- A. Interviewing an official of the security services company to determine the cause of recent increases in billings for services.
- B. Obtaining a copy of the contract between the two organizations.
- C. Preparing an engagement program.
- D. Interviewing the manager who requested the audit engagement.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 35

Which of the following statements is true regarding control activities?

- A. Control activities are carried out by first-line and second-line functions to mitigate risks.
- B. Control activities are implemented by internal auditors to mitigate risks to an acceptable level.
- C. Control activities provide the foundation for the organization to establish its risk appetite.
- D. Control activities are a precondition to setting risk tolerance levels.

Answer: (SHOW ANSWER)

Control activities are indeed carried out by first-line (operational management) and second-line (risk management and compliance functions) to mitigate risks. These activities are key components of an organization's internal control system, designed to address and manage risks identified across the organization. Internal auditors do not implement control activities; instead, they assess the adequacy and effectiveness of these controls. COSO Framework on Internal Control and IIA guidance on control activities.

NEW QUESTION: 36

Which of the following corporate social responsibility strategies is associated with responding to outside pressure by assuming additional responsibility?

- A. Accommodation.
- B. Reaction.
- C. Defense.
- D. Proaction.

Answer: (SHOW ANSWER)

The corporate social responsibility (CSR) strategy of accommodation is associated with responding to outside pressures by assuming additional responsibility. This strategy typically involves making adjustments and accepting responsibilities to address the concerns of external stakeholders, thereby fostering a positive relationship and enhancing the company's social license to operate.

CSR strategies and responses in corporate governance literature

NEW QUESTION: 37

Which aspect of the audit function would be most impacted by a lack of coordination between an organization's internal and external auditors?

- A. Effectiveness.
- B. Responsiveness.
- C. Efficiency.
- D. Timeliness.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 38

At the beginning of an IT development project key risks were identified and assessed and risk owners were appointed Six months later the IT development team reported that the project is significantly over budget, it will not be completed on time and key personnel had left the organization. Which of the following risk management practices should be improved for future projects?

- A. Risk response.
- B. Risk assessment
- C. Risk monitoring.
- D. Risk avoidance.

Answer: C (LEAVE A REPLY)

In the context of internal auditing and risk management, the situation described involves the identification of key risks at the beginning of the IT development project, with risk owners appointed. However, the project later faces significant issues such as being over budget, delays, and loss of key personnel. These issues indicate that the ongoing management and oversight of identified risks were insufficient.

Risk monitoring is the continuous process of tracking and evaluating the performance and changes in the risk environment. Effective risk monitoring ensures that risk responses are executed as planned, emerging risks are identified, and necessary adjustments are made. The failure to stay on budget, meet deadlines, and retain key personnel suggests that there were lapses in regularly reviewing and updating the risk management plan and responses as the project progressed. Therefore, the risk management practice that should be improved for future projects is risk monitoring.

References:

* Institute of Internal Auditors (IIA), "Risk Management and Internal Audit: Forging a Collaborative Alliance"

* ISO 31000:2018 Risk Management - Guidelines

NEW QUESTION: 39

According to the International Professional Practices Framework, a review team must express an opinion on which of the following when performing an external assessment of an internal audit activity?

- I. Conformance with the Standards and IIA Code of Ethics.
 - II. Effectiveness of continuous improvement activities.
 - III. Feedback from internal audit customers and other stakeholder groups.
 - IV. Efficiency and effectiveness of the internal audit activity's administration processes.
- A. I and II only
 - B. III only
 - C. II and IV only
 - D. I only

Answer: (SHOW ANSWER)

NEW QUESTION: 40

Internal auditors who are concerned with potential risks due to the mishandling of records or transactions should take into consideration:

- A. The type and nature of the activities to be examined.
- B. Whether employees in key positions of trust are bonded.
- C. The history of losses suffered by the company.
- D. The results of prior risk assessments.

Answer: (SHOW ANSWER)

Section: Volume B

NEW QUESTION: 41

Which of the following describes the internal audit activity's most appropriate role in an organization's risk management process?

- A. Reporting to the board on management's assessment of current risks
- B. Establishing a risk management policy and framework for the organization
- C. Assigning responsibility for identifying and managing significant risks
- D. Developing key controls to mitigate risks across the organization

Answer: A (LEAVE A REPLY)

The most appropriate role for internal audit in an organization's risk management process is reporting to the board on management's assessment of current risks. This role involves providing assurance on the effectiveness of the organization's risk management processes, including the accuracy and effectiveness of management's risk assessment. Internal audit should not be directly involved in establishing risk management frameworks or developing controls, as these are management responsibilities. References: The Institute of Internal Auditors (IIA) - Standards and Guidance on Risk Management

NEW QUESTION: 42

Which of the following sources is the chief audit executive most likely to rely on as the first indicator of concerns related to internal audit staff's business acumen?

- A. Professional certification exam results.
- B. Results of internal audit client surveys.
- C. Outcomes of collaboration projects with outsourced experts.
- D. Outcomes of external assessments.

Answer: (SHOW ANSWER)

NEW QUESTION: 43

Which of the following organizations has an impairment to internal audit independence?

- A. An organization where the chief financial officer, who is a high-ranking executive, is responsible for approving the internal audit budget.
- B. An organization in which the CAE reports functionally to the board, which is the governing body for the organization.

C. An organization where the chief audit executive (CAE) reports administratively to the CEO, who is the highest officer within the organization.

D. An organization where the CAE is a member of the executive management team.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 44

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. Ethical responsibility.

C. Discretionary responsibility.

D. Innovative responsibility.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 45

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 ([LEAVE A REPLY](#))

Section: Volume F

NEW QUESTION: 46

Which of the following types of policies best helps promote objectivity in the internal audit activity's work?

A. Policies that are distributed to all members of the internal audit activity and require a signed acknowledgment,

B. Policies that match internal auditors' performance with feedback from management of the area under review.

C. Policies that keep internal auditors in areas where they have vast audit expertise.

D. Policies that provide examples of inappropriate business relationships.

Answer: D ([LEAVE A REPLY](#))

Policies that provide examples of inappropriate business relationships best promote objectivity in the internal audit activity's work by explicitly defining what constitutes a conflict of interest and guiding auditors on how to avoid situations that might impair their objectivity. This clear delineation helps maintain the independence and unbiased perspective necessary for effective auditing. References: Institute of Internal Auditors (IIA) - Code of Ethics and Professional Standards; literature on maintaining objectivity in internal auditing.

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NEW QUESTION: 47

Which of the following would be the least significant consideration when performing a risk analysis?

- A. Results of prior audits.
- B. Major operating changes.
- C. Skills available within the audit staff.
- D. Financial exposure and potential loss.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 48

A chief audit executive (CAE) has no direct access to the board. According to IIA guidance, which of the following is the most appropriate way for the CAE to react?

- A. Ensure all subsequent audit reports include a disclaimer as to the lack of access to the board,
- B. Focus on operational audit work and disregard lack of direct access to the members of the board.
- C. Initiate changes to the internal audit charter to report to senior management for the time being,
- D. Engage in written communications with the board and present relevant issues in writing

Answer: D (LEAVE A REPLY)

If a CAE has no direct access to the board, the most appropriate action, according to IIA guidance, is to maintain communication with the board through written communications. This method ensures that the board is informed of relevant audit findings and issues, upholding the governance role of the internal audit function even without direct access. This approach aligns with IIA standards on communicating and reporting to senior management and the board.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, specifically standards related to communication and reporting.

NEW QUESTION: 49

Which of the following describes the primary objective when implementing a risk management framework?

- A. To achieve planned profitability for business expansion.
- B. To enhance an organization's confidence in achieving strategy.
- C. To strengthen corporate governance standards.
- D. To eliminate business risks and uncertainties.

Answer: (SHOW ANSWER)

The primary objective when implementing a risk management framework is to enhance an organization's confidence in achieving its strategy. A risk management framework helps an organization identify, assess, and manage risks that could impact its ability to achieve strategic objectives. By systematically managing risks, the organization can make informed decisions, allocate resources more effectively, and improve its overall resilience, thus increasing confidence in achieving its strategic goals. References:

- * COSO's Enterprise Risk Management - Integrating with Strategy and Performance.
- * The IIA's Practice Guide on Risk Management.

NEW QUESTION: 50

During an audit of a major contract, an internal auditor finds that actual hours and dollars billed are consistently at or near budgeted amounts. This condition is a red flag for which of the following procurement fraud schemes?

- A. Fictitious vendor.
- B. Cost mischarging.
- C. Bid rotation.
- D. Defective pricing.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 51

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

Answer: B (LEAVE A REPLY)

NEW QUESTION: 52

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?

Professional certification, license, or other recognition of the engineer's competence in the relevant discipline.

Experience of the engineer in the type of work being considered.

Compensation or other incentives that the engineer may receive.

The extent of other ongoing services that the engineer may be performing for the organization.

A. 1 and 4 only

B. 3 and 4 only

C. 1,2,and4 only

D. 2 and 3 only

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 53

Which of the following elements should an auditor recommend for inclusion in an organization's code of ethics?

I.Ethics should vary with local customs in the organization's foreign operations.

II.

Whistle-blowing should be discouraged because it can cause distrust among employees and false accusations which waste organizational resources on investigations.

III.

Ethical behavior should not be incorporated into performance evaluations because it is too subjective and controversial.

A. II only.

B. I only.

C. None of the above.

D. I, II, and III.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 54

Which of the following best describes the internal audit activity's responsibility within a risk and control framework?

A. The internal audit activity constitutes the first line of defense in effective risk management.

B. The internal audit activity implements the internal control framework and advises management regarding best practices.

- C. The internal audit activity verifies that management has met its responsibility for implementing effective controls.
- D. The internal audit activity provides direction regarding internal controls implementation.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 55

Which of the following is an example of a risk avoidance strategy?

- A. Outsourcing the payroll function
- B. Installing cameras in the mailroom
- C. Exiting a product line
- D. Insuring all fixed assets

Answer: C (LEAVE A REPLY)

Exiting a product line is an example of risk avoidance. This strategy involves eliminating a specific threat or risk entirely by discontinuing the activity that generates the risk. In this context, ceasing operations of a product line effectively removes all associated risks related to that line of business. References: Risk management strategies and concepts

NEW QUESTION: 56

Which of the following statements is true regarding reporting results of the quality assurance and improvement program to senior management and the board?

- A. A report, including the results of both internal and external assessments must be provided to the board annually
- B. Following the reporting the board must give the internal audit activity five years to correct any deviations
- C. If supported by assessment results, reporting provides assurance that internal auditors demonstrate conformance with the Code of Ethics
- D. Internal assessments must be reported to the board at least every five years

Answer: C (LEAVE A REPLY)

NEW QUESTION: 57

An internal auditor assigned to a supplier management process engagement reviews the risk assessment with the process owner. The auditor inquires about the risk response for potentially engaging unqualified third-party service providers. The process owner responds that due diligence checks are undertaken to make sure that third parties possess requisite competencies before they are engaged. Which of the following risk management techniques is the process owner using?

- A. Risk avoidance
- B. Risk reduction
- C. Risk sharing
- D. Risk acceptance

Answer: B (LEAVE A REPLY)

The process owner is using risk reduction as the risk management technique. By undertaking due diligence checks to ensure that third-party service providers possess the requisite competencies before engagement, the process owner is actively working to minimize the risks associated with engaging unqualified third parties.

This approach reduces the likelihood and impact of the risk materializing. References: Risk management methodologies

NEW QUESTION: 58

An internal auditor is checking the accuracy of a computer-printed inventory listing to determine whether the total dollar value of inventory is significantly overstated. Because there is no time or resources to check all items in the warehouse, a sample of inventory items must be used. If the sample size is fixed, which of the following would be the most accurate sampling approach?

- A. Sample so that the probability of a given inventory item being selected is proportional to the number of units sold for that item.
- B. Sample so that the probability of a given inventory item being selected is proportional to its book value.
- C. Employ simple random sampling.
- D. Select those items that are most easily inspected.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 59

Which documents would help a forensic auditor identify instances of collusion between an employee and vendor to defraud the organization?

- A. Email correspondence.
- B. Payment request forms.
- C. Bank statements.
- D. Vendor invoices.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 60

Which of the following would show appropriate disclosure of nonconformance with the Standards?

- A. The CAE met with the peer review team to discuss an internal auditor's failure to meet the annual requirements for continuing professional education.
- B. The CAE revealed to revealed to operational manager that he failed to appropriately consider risks while he was developing the audit plan.
- C. The CAE discussed with the board an issue regarding the internal activity performing an IT engagement without proper skills and knowledge.
- D. The chief audit executive (CAE) documented in the personal file a critical conflict of interest involving an internal audit on an upcoming contracting engagement.

Answer: (SHOW ANSWER)

NEW QUESTION: 61

During a quality assessment of the internal audit activity an auditor is assessing whether the independence of the internal audit activity is at risk of being compromised. According to IIA guidance, which of the following would provide the best source of evidence for such an assessment?

- A. An assessment of the scope of the audit work performed by the internal audit activity
- B. An organizational chart showing the reporting line of the chief audit executive to the CEO
- C. The internal audit charter as endorsed by the organization's governing body
- D. A review of the audit opinions issued from a sample of recent audit engagements

Answer: C (LEAVE A REPLY)

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NEW QUESTION: 62

During the planning stage of an assurance engagement, a payroll clerk informed the internal auditor that he is often asked to add new employees to the payroll without any formal new-hire documentation from human resources. The auditor is concerned that this increases the risk for fraud. To complete engagement planning, which of the following is the most appropriate next step for the auditor to take?

- A. Advise the chief audit executive of the clerk's assertion, despite the lack of supporting evidence.
- B. Increase the sample size to be tested, ensuring a thorough review of the payroll records.
- C. Investigate the matter further to understand precisely how many payroll records were affected.
- D. Ask the clerk to provide a list of any suspicious new employee names on the payroll.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 63

An objective for an audit of a medical research corporation is to evaluate management's controls to ensure that timely reports are submitted to sponsors of contracted research projects. In planning the audit to achieve this objective, the auditor should begin by:

- A. Reviewing policies and procedures.
- B. Interviewing a group of research managers.
- C. Observing report preparation in a number of laboratories.
- D. Sending a questionnaire to a sample of research sponsors.

Answer: A (LEAVE A REPLY)

Section: Volume A

NEW QUESTION: 64

In which of the following situations may the internal audit activity report conformance with the Standards?

- A. An internal audit activity has been in existence at least five years and has not completed an external assessment,
- B. An internal auditor was assigned to an audit engagement but did not meet individual objectivity requirements.
- C. The internal audit activity prepared an internal audit plan that was not risk-based.
- D. The internal audit activity has been in existence fewer than five years, but periodic self-assessments were conducted.

Answer: (SHOW ANSWER)

According to the Standards set by the Institute of Internal Auditors (IIA), an internal audit activity may report conformance with the Standards even if it has not been in existence for more than five years provided that it has conducted periodic self-assessments and meets the other necessary criteria of the IIA standards. External assessments are required at least once every five years, but conformance can still be reported if internal assessments are conducted in the interim.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 65

Which of the following is the best example of a risk appetite statement concerning an investment portfolio?

- A. We will request CEO approval for investments greater than \$20 million and board approval for investments greater than \$50 million.
- B. We will hedge 95 percent of our U.S. currency exposure and 100 percent of our European currency exposure.
- C. We have a moderate tolerance for investment earnings volatility with a target value at risk of \$50 million.
- D. We will report to the risk committee all credit losses greater than \$10 million and all market value losses greater than \$20 million.

Answer: C ([LEAVE A REPLY](#))

The best example of a risk appetite statement concerning an investment portfolio is one that explicitly states a tolerance level for investment earnings volatility, such as "We have a moderate tolerance for investment earnings volatility with a target value at risk of \$50 million." This statement directly addresses the organization's willingness to accept risk and quantifies it, which is characteristic of effective risk appetite statements.

IIA best practices on defining risk appetite, which recommend quantifying risk tolerance in financial terms to guide strategic decision-making.

NEW QUESTION: 66

Which of the following processes should be included in a benchmarking activity?

I. Identify key measures.

II.

Collect data on performances and practices.

III.

Identify opportunities for improvement.

A. I, II, and III.

B. II and III only.

C. II only.

D. I and III only.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 67

An internal auditor audited a department store's cash function. Which of the following actions would indicate a lack of due professional care by the auditor?

A. A flowchart of the entire cash function was developed but only samples of transactions were tested.

B. Based on a well-designed system of internal controls over the cash function, the audit report assured senior management that no irregularities existed.

C. The auditor informed appropriate authorities within the organization about suspected wrongdoing but did not inform external authorities.

D. The audit report included a well-supported recommendation for a reduction in staff even though such a reduction might adversely impact morale.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 68

An external quality assurance review which was authorized by the chief audit executive (CAE) indicated significant findings from the Standards. To whom should the final results of the quality assurance review be reported?

A. Confidentially to the CAE only

B. The CAE with copies to the board and senior management.

C. To the board with copies to the external auditor or regulatory oversight body.

D. To the senior management with a copy to the board.

Answer: B (LEAVE A REPLY)

Section: Volume C

NEW QUESTION: 69

According to IIA guidance, which of the following must internal auditors consider to conform with the requirements for due professional care during a consulting engagement?

1. The cost of the engagement, as it pertains to audit time and expenses in relation to the potential benefits.
2. The needs and expectation of clients, including the nature, timing, and communication of engagement results.
3. The application of technology-based audit and other data analysis techniques, where appropriate.
4. The relative complexity and extent of work needed to achieve the engagement's objectives.

A. 2, 3, and 4

B. 1, 3, and 4

C. 1, 2, and 3

D. 1, 2, and 4

Answer: (SHOW ANSWER)

NEW QUESTION: 70

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: C (LEAVE A REPLY)

The indication that an internal auditor was assigned to an assurance engagement is most strongly given by the requirement that the auditor must not assume management responsibilities while performing the engagement.

This aligns with the principles of objectivity and independence, which are critical in assurance engagements to provide unbiased and reliable conclusions. Taking on management responsibilities could compromise the auditor's objectivity by involving them

in the operations they are auditing. References: IIA's International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 71

A chief audit executive (CAE) is considering hiring a candidate who most recently worked for a large public accounting firm. What would be the CAE's most likely concern regarding this candidate*?

- A. Narrow industry experience
- B. Weak interpersonal skills
- C. MPotential conflict of interest
- D. Low-level audit expertise

Answer: [\(SHOW ANSWER\)](#)

NEW QUESTION: 72

When performing benchmarking during the planning phase of a performance audit, an internal auditor should:

- A. Project future performance levels.
- B. Identify comparative organizations.
- C. Determine the current performance gap.
- D. Develop functional action plans.

Answer: [B \(LEAVE A REPLY\)](#)

NEW QUESTION: 73

Which of the following actions by the internal audit activity provides strong evidence that it is organizationally independent?

- A. It maintains direct interactions with the audit committee or board.
- B. It releases an approved internal audit charter stating that the internal audit activity is independent.
- C. It reviews engagement results for evidence of undue influence before releasing the final report.
- D. It requires all internal audit staff to sign annual non-disclosure and potential conflict of interest statements.

Answer: [A \(LEAVE A REPLY\)](#)

NEW QUESTION: 74

Which of the following would be addressed in the internal audit charter?

- A. Budget requirements for each engagement
- B. Audit engagements to be completed in the next fiscal year
- C. Functional and administrative reporting lines for the chief audit executive
- D. Expertise requirements for internal auditors

Answer: [C \(LEAVE A REPLY\)](#)

NEW QUESTION: 75

The chief audit executive is revising policies relating to independence and objectivity of the internal audit activity. Which of the following would be a part of the revised policies document?

- A.** Any auditor that received gifts of low-value promotional items from an audit client must report it to their supervisor.
- B.** An auditor may provide consulting services relating to operations for which they had previous responsibilities.
- C.** Any auditor that received high-value gifts from an audit client must report it to their supervisor.
- D.** An auditor does not need to complete an annual conflict of interest form unless the auditor's independence status has changed.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 76

An auditor is using audit software to check inventory accuracy. Which of the following would be an indicator of poor input edit controls?

- A.** Negative quantities on hand.
- B.** Total dollar values of zero for some parts.
- C.** Alpha characters in the field for order lead time.
- D.** Reorder levels set too high.

Answer: C (LEAVE A REPLY)

Section: Volume A

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NEW QUESTION: 77

The internal audit activity plans to audit a supplier quality management process within the supply chain function. In what way is this assurance engagement similar to a typical consulting engagement?

- A.** For both types of engagements, internal auditors are solely responsible for deciding the goals and objectives.

B. For both types of engagements, internal auditors must obtain requisite skillsets for the areas where their team lacks competencies.

C. For both types of engagements, internal auditors should not be involved in the engagement if they previously managed the supply chain function.

D. For both types of engagements, internal auditors are prohibited from undertaking operational responsibilities.

Answer: (SHOW ANSWER)

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities and the internal audit activity's plan². This applies to both assurance and consulting engagements, as they both require internal auditors to provide risk-based and objective assurance, advice, and insight to the organization³. If the internal audit team lacks the necessary competencies for a specific engagement, they should obtain them through training, coaching, or external assistance⁴.

References:

1: CIA Exam Practice Questions - Certified Internal Auditor 2019 2: Standard 1210 - Proficiency - The Institute of Internal Auditors or The IIA 3: Mission of Internal Audit 4: Standard 1210.A3 - The Institute of Internal Auditors or The IIA

NEW QUESTION: 78

Which of the following is an example of impairment to internal auditor independence or objectivity'?

A. Assurance engagements for functions over which the chief audit executive (CAE) has responsibility are overseen by a party outside the internal audit activity

B. Internal auditors provide consulting services relating to operations for which they had previous responsibilities

C. Internal auditors provide consulting services relating to operations for which they have current responsibilities

D. Consulting engagements for functions over which the CAE has responsibility are overseen by a party outside the internal audit activity

Answer: (SHOW ANSWER)

An example of impairment to internal auditor independence or objectivity is when internal auditors provide consulting services relating to operations for which they have current responsibilities. This creates a direct conflict of interest as the auditor is assessing parts of the organization for which they are responsible, potentially compromising their ability to remain objective and unbiased. References: The IIA's Code of Ethics and International Standards for the Professional Practice of Internal Auditing, particularly standards related to objectivity and independence.

NEW QUESTION: 79

Which of the following scenarios provides the most concerning red flag or indicator of possible fraud?

- A. An employee receives a bonus for perfect attendance
- B. During the past 18 months three chief financial officers have left the organization after having been promoted to the position
- C. The organization does not perform any due diligence research on third party service providers
- D. Three competitors are highly profitable but a fourth equal in size is approaching bankruptcy limits

Answer: (SHOW ANSWER)

The scenario where three chief financial officers have left the organization after being promoted to the position over the past 18 months presents the most concerning red flag for possible fraud or other serious issues. Such turnover at a high level, especially in a critical financial role, could indicate underlying problems such as financial mismanagement, conflict, or fraud. References: Institute of Internal Auditors (IIA) - Practice Guide: Assessing Fraud Risks

NEW QUESTION: 80

An organization has developed a model to determine the most profitable rate of production. The organization varies the cost of labor in the model to determine how much the changes affect the optimal production level. Which type of analysis does this scenario demonstrate?

- A. Forecast.
- B. Critical path.
- C. Sensitivity.
- D. Decision.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 81

Internal control processes in an organization require that all investments exceeding \$20,000 receive authorization from both the president and treasurer. After conducting a sample of these transactions, an auditor determined that 10 of the 500 investments in the sample had not included both required authorizations.

The sample has a five percent acceptable error rate. Based on this sample, which of the following actions should the auditor take?

- A. Confirm all of the investments with the organization's internal finance department.
- B. Contact the organization's investment broker and confirm all investments.
- C. Complete a comprehensive review of the organization's investment activity and compare variations over prior years.
- D. Determine that no further testing of investment authorizations is required.

Answer: D (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 82

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

Answer: C (LEAVE A REPLY)

NEW QUESTION: 83

Which of the following internal auditor attributes are affected by a conflict of interest?

- A. Authority and proficiency.
- B. Independence and authority.
- C. Independence and objectivity.
- D. Objectivity and due professional care.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 84

According to The IIA's Code of Ethics, which of the following scenarios offers the best example of violating the principle of integrity?

- A. An internal audit manager collaborates with senior management to provide misleading information to government authorities.
- B. An internal audit manager provides sample audit reports and workpapers to a friend without obtaining prior approval
- C. An internal audit manager carries out a technical audit request without seeking expert opinion, despite a lack of the requisite skills.
- D. An internal audit manager assigned to audit a sales process failed to reveal that the process owner is a relative

Answer: (SHOW ANSWER)

The scenario where an internal audit manager fails to disclose a conflict of interest by not revealing that the process owner being audited is a relative is a clear violation of the integrity principle outlined in The IIA's Code of Ethics. Integrity demands that internal auditors disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review or conceal unlawful practices. References: The IIA's Code of Ethics

NEW QUESTION: 85

Which of the following would be considered a violation of The HAFs mandatory guidance on independence?

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

Answer: C (LEAVE A REPLY)

NEW QUESTION: 86

Which of the following is a greater consideration for internal auditors when they are performing a consulting engagement than when they are performing an assurance engagement'?

- A. The relative complexity of the engagement
- B. The cost of the engagement relative to its benefits
- C. The extent of work needed to achieve the engagement's objective
- D. The needs and expectations of the engagement client

Answer: (SHOW ANSWER)

In consulting engagements, the needs and expectations of the engagement client are a greater consideration compared to assurance engagements. This is because consulting engagements are typically more advisory in nature and specifically tailored to provide value and improve an organization's operations based on the client's requirements. In assurance engagements, the focus is more on the independent assessment against criteria or standards, which does not vary based on client needs to the same extent.
IIA Practice Advisory on Consulting Services

NEW QUESTION: 87

According to IIA guidance, which of the following threats to objectivity is described as familiarity'?

- A. An internal auditor is a close friend or relative of the manager or an employee of the audit client
- B. An internal auditor has a long-term business relationship with the audit client.
- C. An internal auditor has an economic stake in the performance of the organization
- D. An internal auditor is exposed to or perceived to be exposed to pressures from external parties

Answer: B (LEAVE A REPLY)

According to IIA guidance, the 'familiarity' threat to objectivity occurs when an internal auditor has a long-term business relationship with the audit client. This kind of relationship can lead to a closeness or trust that might compromise the auditor's objective assessment of the client's policies, procedures, or transactions due to a lack of critical assessment or

skepticism. References: The IIA's Code of Ethics and International Standards for the Professional Practice of Internal Auditing on objectivity and conflict of interest.

NEW QUESTION: 88

Which of the following threatens internal audit objectivity'?

- A.** Internal auditors are expected by senior management to identify a minimum of five major control weaknesses in each area audited
- B.** Internal auditors are prevented from accessing information necessary to undertake their audit engagements
- C.** The chief audit executive reports directly to the chief financial officer who previously led the internal audit activity
- D.** The CEO requests the internal audit activity develop a charter that clearly delineates its purpose and responsibilities within the organization

Answer: C (LEAVE A REPLY)

A significant threat to internal audit objectivity arises when the chief audit executive reports directly to the chief financial officer, especially if the CFO previously led the internal audit activity. This reporting relationship can undermine the independence necessary for objective audits, as the CFO might influence the scope or outcome of audit engagements to suit certain financial reporting outcomes or to cover previous decisions made while in charge of internal audit.

The IIA's International Standards for the Professional Practice of Internal Auditing on independence and objectivity.

NEW QUESTION: 89

When comparing an organization's current performance to that of the prior year, an internal auditor found that:

Total labor costs had increased.

More overtime costs had been incurred.

The total number of workers had increased.

Net income was 10 percent lower.

Based solely on this information, which of the following is a valid conclusion?

- A.** Wage rates increased.
- B.** Net income per worker decreased.
- C.** Total labor hours increased.
- D.** Worker efficiency decreased.

Answer: (SHOW ANSWER)

NEW QUESTION: 90

Which of the following is an appropriate role for the board in governance?

- A.** Working with the organization's attorneys to develop a strategy regarding current litigation, pending litigation, or regulatory proceedings governance.

- B. Assisting the internal audit activity in performing annual reviews of governance.
- C. Preparing written organizational policies that relate to compliance with laws, regulations, ethics, and conflicts of interest.
- D. Ensuring that financial statements are understandable, transparent, and reliable.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 91

According to IIA guidance, which of the following would be included in an internal audit charter to help establish the authority of the internal audit activity?

- A. Outline expectations for communicating the results of all aspects of the internal audit activity.
- B. Declare the internal audit activity's accountability for safeguarding assets and confidentiality.
- C. Document the chief audit executive's (CAE's) reporting line
- D. Document agreement between the CAE and the individual to whom the CAE reports

Answer: (SHOW ANSWER)

To help establish the authority of the internal audit activity, an internal audit charter should document the chief audit executive's (CAE's) reporting line. This information clarifies the CAE's position within the organization, reinforces their independence, and underscores the authority granted to them by the board, which is crucial for enabling the internal audit activity to fulfill its mandate effectively. References: IIA Standard 1110 - Organizational Independence, which emphasizes the importance of defining the CAE's reporting lines in the internal audit charter to ensure organizational independence.

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NEW QUESTION: 92

Which two of the following are preventive controls in a check disbursement process?

Daily reconciliation of the bank account used for check disbursements and prompt follow-up of un-reconciled items.

Segregation of the following duties: establishing new vendors, approving checks, and reconciling the bank account.

An activity report detailing who accesses the check disbursement system and the nature of any action taken in the system.

Evidence of strong access controls ensuring that authorized individuals have access only to the functions related to their responsibilities.

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

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 93

Management of a publicly-held organization requires the internal audit activity to be involved with quarterly financial statements, which are made public and used internally. Which of the following explanations of management's decision is least plausible?

- A. Management may perceive that having quarterly financial information examined by the internal auditors enhances the information's value to internal decision making.
- B. Management is following best-practice protocol, as stipulated by the Standards, which states that internal auditors must review quarterly financial statements.
- C. Management may be concerned about its reputation in the financial markets.
- D. Management may be concerned about potential penalties that could occur if quarterly financial statements are misstated.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 94

Which of the following is part of a fraud detection program?

- A. Evaluation of compensation programs.
- B. Background investigations
- C. Authority limits.
- D. Whistleblower hotline.

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 95

The organization's procurement manager asks the internal auditor to deliver training to the procurement team on the organization's third-party risk management process. Which of the following is the most appropriate response?

- A. The internal auditor should reject the request if she previously worked in the procurement area to maintain objectivity
- B. The internal auditor should reject the request if the internal audit team does not have the requisite expertise.
- C. The internal auditor should accept the request and in fact she may assume some management responsibilities temporarily if the result is a relevant training benefit
- D. The internal auditor may accept the request only if she defines the scope to ensure conformance with the Code of Ethics

Answer: (SHOW ANSWER)

According to the IIA's Code of Ethics and professional standards, internal auditors must maintain their independence and objectivity. However, they can provide training or advisory services as long as it does not impair these qualities. In this case, the internal auditor can accept the request to deliver training on the organization's third-party risk management process if she clearly defines the scope and ensures that it aligns with the principles of integrity, objectivity, confidentiality, and competency. This means the auditor should not take on management responsibilities and should ensure that the training is within the boundaries of providing advice and guidance without making decisions or taking actions on behalf of management.

References:

* IIA Code of Ethics

* IIA Standard 1130: Impairment to Independence or Objectivity

NEW QUESTION: 96

A chief audit executive (CAE) is concerned that the internal audit activity is not receiving adequate training and continuing education. Which of the following approaches should the CAE take?

- A. Implement a uniform professional development plan for the internal audit activity.
- B. Create a formal development agreement with each individual staff auditor.
- C. Require each internal auditor to obtain the same professional certifications.
- D. Require training and developmental activities that are sponsored by The HA.

Answer: A (LEAVE A REPLY)

A uniform professional development plan ensures that all internal auditors receive consistent and adequate training and continuing education. This approach helps to maintain a high standard of proficiency and competence within the internal audit activity.

References:

* IIA Standard 1230 - Continuing Professional Development.

* IIA Practice Guide on Developing a Professional Development Program.

NEW QUESTION: 97

An internal audit activity uses a rotational program to recruit high-performing staff members from other parts of the organization. One of these individuals is nearing the end of her four-year internal audit rotation. The chief audit executive assigned her to an assurance engagement in the business area she will be going into when she leaves the internal audit activity. Which of the following statements is true regarding this scenario?

- A. Accepting the assignment is a violation of internal audit independence.
- B. Accepting the assignment will improve competencies and develop relationships that will be needed in her next assignment.
- C. Accepting the assignment creates the appearance of an impairment to her professional judgment and objectivity.

D. Accepting the assignment on the assurance engagement would be a breach of due professional care

Answer: (SHOW ANSWER)

Accepting the assignment creates the appearance of an impairment to her professional judgment and objectivity. This is because the individual is auditing an area where she will soon work, which could potentially influence her audit work, either consciously or unconsciously, due to personal interest in the future role. References: IIA Standards on Independence and Objectivity

NEW QUESTION: 98

Senior management purchased surveillance cameras and installed them over a door that provides entry to an area where according to a recent internal audit report, hazardous materials exist and there is a high risk of explosion Which type of control was implemented in this situation?

- A. A corrective control
- B. A detective control
- C. A preventive control
- D. A directive control

Answer: (SHOW ANSWER)

The installation of surveillance cameras over a door that provides entry to an area with hazardous materials, and a high risk of explosion, represents a preventive control. This control aims to deter unauthorized access and potential mishandling or sabotage, which could lead to dangerous incidents. References: The IIA's guidance on different types of controls including preventive, detective, and corrective controls.

NEW QUESTION: 99

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: B (LEAVE A REPLY)

To promote organizational independence for the internal audit activity, the audit committee should approve the annual budget and resource plan for the internal audit activity. This action ensures that the internal audit has sufficient resources to independently carry out its mandate without undue influence from management. References: IIA guidance and standards concerning the role of the audit committee in supporting the independence and resources of the internal audit function.

NEW QUESTION: 100

According to IIA guidance, which of the following statements describes one of the similarities between assurance and consulting services?

- A. Internal auditors must not provide assurance or consulting services for an activity for which they had responsibility within the previous year.
- B. When planning assurance and consulting engagements, internal auditors must consider the strategies and objectives of the activity being reviewed.
- C. Internal auditors determine the engagement objectives, scope, and work program for both assurance and consulting services.
- D. Both assurance and consulting services generally involve the internal auditor, the area under review, senior management, and the board.

Answer: (SHOW ANSWER)

NEW QUESTION: 101

Which of the following types of fraud includes embezzlement?

- A. Corruption.
- B. Fraudulent statements.
- C. Bribery.
- D. Misappropriation of assets.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 102

Which of the following statements is correct regarding corporate compensation systems and related bonuses?

- I. A bonus system should be considered part of the control environment of an organization and should be considered in formulating a report on internal control.
- II. Compensation systems are not part of an organization's control system and should not be reported as such.
- III. An audit of an organization's compensation system should be performed independently of an audit of the control system over other functions that impact corporate bonuses.

- A. III only
- B. II and III only
- C. I only
- D. II only

Answer: C (LEAVE A REPLY)

NEW QUESTION: 103

Which of the following items of evidence is most valid to support a finding that a public utility's repair crews are sometimes required to work under unsafe conditions?

- A. Written and signed descriptions from repair crew members of the unsafe conditions that they have had to endure.

- B. Videotapes of repair crews working in a situation that is unsafe.
- C. Audio taped testimonials from repair crew members who were required to work under unsafe conditions.
- D. Reports showing increases in the number of days of sick leave for individuals on repair crews.

Answer: (SHOW ANSWER)

NEW QUESTION: 104

An internal auditor believes that the internal audit activity's independence is impaired. Which of the following actions should the internal auditor take first?

- A. Report the impairment to senior management
- B. Ascertain the best approach to disclose the impairment.
- C. Decide on the extent of impact of the impairment
- D. Discuss the impairment with the audit manager

Answer: D (LEAVE A REPLY)

NEW QUESTION: 105

Which of the following best demonstrates that the internal audit activity is using due professional care?

- A. Internal auditors undertake the necessary training to complete their audit work.
- B. The completion of engagements is based on the assumption that fraudulent activities may exist.
- C. The internal audit activity reports directly to the board on the engagements it performs.
- D. Internal auditors consider the use of technology-based audit and other data analysts techniques

Answer: D (LEAVE A REPLY)

NEW QUESTION: 106

It is important for the chief audit executive to consider the level of competence of the internal audit staff because their competence influences which of the following?

- A. The cost-benefit relationship of planned audits.
- B. Proficiency needed to carry out engagements.
- C. Achievement of the objectives of internal control.
- D. Quantity of the audits performed.

Answer: B (LEAVE A REPLY)

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NEW QUESTION: 107

What is the primary reason a chief audit executive should dedicate time and resources to support continuing professional development of internal audit staff?

- A. To ensure that internal audit staff maintains high overall job satisfaction.
- B. To ensure that internal audit staff acquired continuing professional education credits timely.
- C. To ensure that top risks are mitigated to an acceptance level.
- D. To ensure that internal audit staff have the competency to address high-priority risks.

Answer: D (LEAVE A REPLY)

The primary reason a chief audit executive should dedicate time and resources to the continuing professional development of internal audit staff is to ensure they have the competency to address high-priority risks.

Continuous professional development ensures that audit staff are equipped with up-to-date knowledge and skills necessary to effectively audit complex and evolving risk environments, thereby contributing directly to the effectiveness and reliability of the internal audit function.

IIA standards on continuing professional development and staff competencies.

NEW QUESTION: 108

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?

Subsequent change orders increase requirements for low-bid items.

Material contract requirements are different on the actual contract than on the request for bids.

A high percentage of employees are charged to indirect accounts.

Losing bidders are hired as subcontractors.

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

Answer: C (LEAVE A REPLY)

NEW QUESTION: 109

Which of the following would not be a factor for senior management to consider when determining the internal audit activity's role in an organization's risk management process?

- A. The extent to which the internal audit activity is outsourced.
- B. The maturity level of risk management practices in the organization.

- C. The nature of the business and the environment in which the organization operates.
- D. The competency of the internal auditors in risk management.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 110

Which of the following actions taken during an audit engagement is the best demonstration of an internal auditor's due professional care?

- A. Ensure that all financial information related to the engagement is included in the audit plan and examined for irregularities.
- B. Consider the possibility of noncompliance or irregularities at all times during an engagement.
- C. Notify the audit committee of any noncompliance or irregularity discovered during an engagement.
- D. Document all audit tests completely.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 111

Management decided to post the organization's newly established code of conduct on its website. This decision is primarily intended to mitigate which of the following risks?

- A. Accountability risk.
- B. Communication risk.
- C. Knowledge risk.
- D. Cultural risk.

Answer: D ([LEAVE A REPLY](#))

Posting the organization's code of conduct on its website is a strategy to mitigate cultural risk by promoting transparency and establishing a clear set of behavioral expectations for both employees and stakeholders. This helps in shaping a positive organizational culture where ethical behavior is encouraged and deviations from expected conduct are minimized. By making the code of conduct publicly available, the organization demonstrates its commitment to integrity and ethical behavior, which can enhance trust and accountability.

References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2110 - Governance, and COSO's Internal Control - Integrated Framework.

NEW QUESTION: 112

Which of the following is a key performance indicator for an internal audit function?

- A. Audit expenditures compared to financial budgets.
- B. Percent of required continuing education hours completed.
- C. Implementation of new audit computer software.
- D. Frequency of meetings with the board members.

Answer: B ([LEAVE A REPLY](#))

Section: Volume B

NEW QUESTION: 113

Which requirement should the chief audit executive consider when communicating results of the quality assurance and improvement program to the board of a large organization?

- A.** The rating conclusions and the impact from results of the external assessment should be explained,
- B.** The qualifications and independence of the internal assessment team should be discussed
- C.** The internal assessment results should be discussed once every five years,
- D.** The results of the external assessment should be discussed every seven years,

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 114

Which of the following statements regarding segregation of duties is true?

- A.** When evaluating an organization's policy on segregation of duties, employee competence does not need to be considered.
- B.** An organizational chart provides an accurate definition of segregation of duties.
- C.** Policies on segregation of duties in information systems must recognize the difference between logical and physical access to assets.
- D.** A restrictive segregation-of-duties policy can help improve an organization's communication.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 115

In which of the following circumstances would an internal auditor not need to search for other signs of fraud?

- A.** Management institutes a policy of paying vendors promptly in order to avoid incurring penalty charges.
- B.** The organization has an unusually high increase in costs.
- C.** There are several substantial weaknesses with the internal control structure.
- D.** One of the employees seems to have had a dramatic increase in their standard of living.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 116

Which of the following statements best describes the difference between risk appetite and risk tolerance?

- A.** Risk appetite applies to specific objectives, while risk tolerance refers to an organization's general attitude toward risk,

B. Risk appetite refers to the degree of risk acceptance for a particular objective, while risk tolerance is one approach to risk management.

C. Risk appetite refers to an organization's general level of acceptance, while risk tolerance is a more specific and subordinate concept.

D. There is no significant difference between the two terms.

Answer: (SHOW ANSWER)

The statement that best describes the difference between risk appetite and risk tolerance is that risk appetite refers to an organization's general level of acceptance of risk, while risk tolerance is a more specific and subordinate concept. Risk appetite is the broad-based amount of risk an organization is willing to accept in pursuit of its mission, while risk tolerance defines the acceptable level of variation that management is willing to allow for any particular risk as it pursues its objectives. References: The Institute of Internal Auditors (IIA)

- International Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 117

According to the IIA Code of Ethics, which of the following best describes the conduct of an internal auditor who demonstrates the principle of competency?

A. The auditor is prudent in the use and protection of information acquired in the course of his work.

B. The auditor does not accept anything that may impair or be presumed to impair his professional judgment.

C. The auditor does not perform services in a particular area when he lacks skills in that area.

D. The auditor performs work with honesty, diligence, and responsibility.

Answer: C (LEAVE A REPLY)

According to the IIA Code of Ethics, the principle of competency requires internal auditors to apply the knowledge, skills, and experience needed in the performance of internal audit services. Specifically, the Code of Ethics mandates that internal auditors shall not perform any services for which they lack the necessary skills, unless they obtain appropriate assistance (Option C). This principle ensures that auditors provide professional and competent services, maintaining the quality and reliability of their work.

IIA Code of Ethics: Competency

IIA Standards, Standard 1210: Proficiency and Due Professional Care

NEW QUESTION: 118

A chief audit executive (CAE) identifies that the internal audit activity lacks a necessary skill to perform a management request for a consulting engagement. According to IIA guidance, which of the following is the most appropriate action the CAE should take regarding the request?

A. Assign the engagement to a more senior internal auditor.

- B.** Decline the engagement request.
- C.** Allow the internal auditors to acquire the needed skills while performing the engagement.
- D.** Supervise the assigned internal auditors throughout the engagement.

Answer: B (LEAVE A REPLY)

When an internal audit activity lacks the necessary skills to perform a requested consulting engagement, the most appropriate action according to IIA guidance is for the Chief Audit Executive (CAE) to decline the engagement request. This decision ensures the integrity and quality of the audit service, adhering to the standard of only undertaking work where the internal audit staff possesses or has the ability to obtain the necessary knowledge and skills.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 119

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

Answer: D (LEAVE A REPLY)

NEW QUESTION: 120

Try chief audit executive (CAE) of large organization is preparing job descriptions to hire five new general internal audit staff, two new IT auditors and a senior auditor how is the CAE likely to describe IT requirements for me general internal audit staff positions?

- A.** The candidate must be able to execute web servers, applications, and databases testing procedures.
- B.** The candidate must be able to apply data analytics tools methodologies
- C.** The candidate must be able to understand IT-related risk and general controls
- D.** The candidate must be able to evaluate IT governance and cybersecurity frameworks.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 121

Upon completion of an external assessment as part of the quality assurance and improvement program (QAIP), the chief audit executive (CAE) reported the results to senior management and the board. The CAE included the following elements in the report:

- Qualifications and independence of the external assessment team
- Conclusions of assessors
- Corrective action plans

How should the CAE improve the aforementioned approach to reporting the results of QAIP?

- A.** Senior management should be excluded from the reporting as the QAIP results must be communicated to the board only
- B.** The report can be streamlined by removing unnecessary information such as the qualifications and the independence of external assessors
- C.** The results must be shared with the external auditors as well, so they can determine the extent to which they can rely on the work of the internal audit activity
- D.** The report should indicate that the external assessment must be performed at least once every five years

Answer: C (LEAVE A REPLY)

To improve the approach to reporting the results of the QAIP, the results must also be shared with the external auditors. This sharing of information helps external auditors determine the extent to which they can rely on the work of the internal audit activity. This not only enhances coordination between internal and external audit functions but also improves the overall audit quality by enabling external auditors to better understand the internal audit environment and its effectiveness.

Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

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NEW QUESTION: 122

Which of the following is a characteristic of an effective continuing professional development program?

- A.** All individual development plans include obtaining a relevant professional certification as the department's base level of qualification.
- B.** The chief audit executive is ultimately responsible for the ownership of individual internal auditors' professional development plans.

C. All auditors undergo the same training simultaneously to improve training efficiencies and evenly spread information.

D. A formal mentorship program is in place where the auditors' supervisor also plays the role of mentor.

Answer: (SHOW ANSWER)

NEW QUESTION: 123

Internal control processes in an organization require that all investments exceeding \$20,000 receive authorization from both the president and treasurer. After conducting a sample of these transactions, an auditor determined that 10 of the 500 investments in the sample had not included both required authorizations.

The sample has a five percent acceptable error rate. Based on this sample, which of the following actions should the auditor take?

A. Confirm all of the investments with the organization's internal finance department.

B. Contact the organization's investment broker and confirm all investments.

C. Complete a comprehensive review of the organization's investment activity and compare variations over prior years.

D. Determine that no further testing of investment authorizations is required.

Answer: D (LEAVE A REPLY)

Section: Volume D

Explanation/Reference:

NEW QUESTION: 124

Which of the following scenarios depicts an appropriate role for the internal audit activity to take regarding an organization's risk management process?

A. Internal audit is responsible for safeguarding the organization's assets and preventing loss from occurring.

B. Internal audit designs and implements the organization's controls to help manage risk.

C. Internal audit assesses whether the organization's risk management processes are effective.

D. Internal audit sets the organization's risk tolerance and promotes awareness throughout the organization.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 125

Within the internal audit process, which of the following is not a significant advantage of employing a control model?

A. It provides guidance on identifying control deficiencies for each internal audit engagement.

B. It validates the findings and recommendations of the internal audit.

C. It assists internal auditors in assessing the achievement of management's objectives.

D. It recognizes the need to evaluate both hard and soft controls.

Answer: (SHOW ANSWER)

NEW QUESTION: 126

Which of the following describes the primary objective when implementing a risk management framework?

- A. To enhance an organization's confidence in achieving strategy.
- B. To achieve planned profitability for business expansion.
- C. To strengthen corporate governance standards.
- D. To eliminate business risks and uncertainties.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 127

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?

Average client customer satisfaction score for a given year.

Client survey comments on how to improve the IAA.

Auditor interviews once an audit has been completed.

Percentage of audits completed within 90 days.

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

Answer: B (LEAVE A REPLY)

NEW QUESTION: 128

Which of the following best describes the trait that an internal auditor exercises when considering the extent of work needed to achieve the engagement's objectives?

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

Answer: (SHOW ANSWER)

NEW QUESTION: 129

If an internal auditor suspects fraud during an engagement which of the following is expected of the auditor?

- A. Evaluate the suspected activities to determine whether a formal investigation is warranted,

- B.** Immediately inform senior management and the board of the suspected fraud.
- C.** Ascertain the level of resources needed to formally investigate the fraud, and proceed with the investigation if resources permit,
- D.** Include in the engagement documentation all possible effects and the potential impact of the fraud to the organization

Answer: A ([LEAVE A REPLY](#))

If an internal auditor suspects fraud during an engagement, the expected action is to evaluate the suspected activities to determine whether a formal investigation is warranted. This step is crucial as it ensures that suspicions are substantiated before escalating the issue, thereby maintaining the integrity and objectivity of the internal audit process. This approach aligns with the IIA's guidance on handling fraud, including assessing and responding to risks of fraud during audit engagements.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 130

Some of a company's payroll transactions were batch posted to the payroll file but were not uploaded correctly to the general ledger file on the mainframe. The best control to detect this type of error would be:

- A.** Validation of hash totals.
- B.** Edit controls on the payroll file.
- C.** Appropriate segregation of duties for batch approval.
- D.** Reconciliation of paychecks to the bank account.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 131

Senior management is eager to assess the organization's risks with regard to electricity sales processes, but the senior management team does not know where to start. How can the internal audit activity assist?

- A.** Outsource the identification of best practices for risk management to an external third party.
- B.** Perform an audit engagement to identify risk management practices deployed in electricity sales processes.
- C.** Recommend reporting the lack of risk management to government authorities and request guidance.
- D.** Facilitate a self-assessment workshop with the employees responsible for process execution.

Answer: ([SHOW ANSWER](#))

By performing an audit engagement, the internal audit activity can systematically review and assess the current risk management practices in the electricity sales processes. This will provide senior management with a detailed understanding of the existing controls,

processes, and any gaps or areas for improvement. An audit engagement offers a structured approach to identifying and evaluating risks and controls, which is essential for developing effective risk management strategies. References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2200 - Engagement Planning, and Standard 2210 - Engagement Objectives.

NEW QUESTION: 132

An internal auditor performed a risk assessment and concluded that the controls over access privileges to a bank account were appropriate. Later, the auditor learned that a contractor was using a shared password provided by an authorized user of the account. Which of the following statements best describes the auditor's application of due professional care?

- A. Due professional care was exercised, despite the auditor's failure to identify the significant risk.
- B. Due professional care was not exercised because the auditor failed to identify all the significant risks during the risk assessment.
- C. Due professional care was not exercised because the residual risk from the possibility of authorized users sharing their passwords was not considered.
- D. Due professional care was not exercised because the auditor failed to conduct interviews to obtain testimonial evidence of possible password sharing

Answer: C (LEAVE A REPLY)

Due professional care was not exercised because the residual risk from the possibility of authorized users sharing their passwords was not considered. Identifying and assessing risks associated with shared access and improper handling of credentials is crucial in a risk assessment. The failure to consider such risks indicates a lack of thoroughness in the auditor's evaluation of control effectiveness. References: IIA Standard 1300: Quality Assurance and Improvement Program

NEW QUESTION: 133

An organization's senior management team is awarding substantial bonuses if employees meet financial targets. Which of the following motivators to potentially commit fraud would become most likely in this scenario?

- A. Rationalization
- B. Opportunity
- C. Justification
- D. Pressure

Answer: D (LEAVE A REPLY)

NEW QUESTION: 134

Line management of a manufacturing operation requests an operational audit. They are seeking recommendations for policies and procedures to enhance control over the operation. What should the internal audit activity do?

- A.** Review the effectiveness of current policies and procedures but avoid making control recommendations due to impaired objectivity.
- B.** Perform the engagement and make appropriate recommendations for policies and procedures.
- C.** Turn down the engagement because recommending controls would impair future objectivity regarding this client.
- D.** Turn down the engagement because an operational audit should not review policies and procedures.

Answer: B (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 135

Which of the following is correct regarding the implementation of a quality assurance and improvement program for the internal audit function?

- A.** A quality assurance and improvement program is applicable depending on the size and complexity of the audit function.
- B.** The chief audit executive can establish a formal quality assurance and improvement program that is led by an audit manager.
- C.** The board has the primary responsibility for implementation of a robust quality assurance and improvement program for internal audit.
- D.** An internal audit function that is fully complying with internal assessment of quality can confidently claim it is performing in conformity with the International Professional Practices Framework.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 136

Which of the following statements is true regarding the disclosure of results of the quality assurance and improvement program?

- A.** If the results of both internal and external assessments support conformance with the Standards, the internal audit activity must communicate this to the board and senior management in writing.
- B.** If it has been in existence fewer than five years and has no documented external assessment, the internal audit activity may not indicate that it is operating in conformance with the Standards.
- C.** If nonconformance affects its ability to fulfill its professional responsibilities or stakeholder expectations, the internal audit activity should disclose nonconformance as well as its impact.

D. If an external assessment reflects an overall conclusion of nonconformance, the internal audit activity may continue to communicate that it conforms with the Standards if it discloses a remediation plan, including timeline with subsequent validation.

Answer: C (LEAVE A REPLY)

According to IIA standards, if nonconformance with the Standards affects the internal audit activity's ability to fulfill its professional responsibilities or meet stakeholder expectations, the internal audit activity should disclose the nonconformance and its impact. This is essential for maintaining transparency and accountability, ensuring that all stakeholders are informed of the internal audit's effectiveness and areas needing improvement. References: IIA Standard 1322 - Disclosure of Nonconformance, which outlines requirements for disclosing the results of quality assurance and improvements, particularly concerning nonconformance.

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NEW QUESTION: 137

In a manufacturing organization, all sales prices are determined centrally and are electronically sent to the distribution centers to update their sales price tables. Any pricing deviations must be approved by central headquarters. To determine how this process is functioning, an internal auditor should:

- A.** Document the flow of sales price information, and determine how the table is accessed and updated.
- B.** Develop a flowchart of the sales order process to determine how orders are taken and priced.
- C.** Identify who approves the shipment of goods and how the goods are priced.
- D.** Obtain a copy of the existing flowchart for the computer program to determine how price data are accessed.

Answer: A (LEAVE A REPLY)

Section: Volume A

NEW QUESTION: 138

A subsidiary of the organization was preparing for an initial public offering (IPO). At the request of the audit committee, the chief audit executive (CAE) and all senior audit staff were actively involved in the process by helping collect and validate financial data,

conducting assessments, and participating in meetings with IPO advisors. Six months later, it became obvious that the IPO had to be canceled. Newly appointed audit committee members requested an assurance engagement that would assess the IPO preparation process. Which of the following would be the best course of action for the chief audit executive (CAE) to take?

- A.** The decision to involve auditors in the IPO was made by former audit committee members; therefore, the CAE is not responsible and can proceed with the new assignment.
- B.** The CAE should reject the assignment, as such engagements are beyond the scope of auditors who are usually not familiar with root cause analysis methodology.
- C.** The engagement should be undertaken by audit assistants and other junior staff members who were not involved in the IPO process.
- D.** The CAE should disclose objectivity limitations to the audit committee and suggest alternatives, such as outsourcing the engagement.

Answer: (SHOW ANSWER)

Since the CAE and senior audit staff were actively involved in the IPO process, their objectivity could be compromised if they conduct the assurance engagement. Disclosing these limitations to the audit committee and suggesting alternatives, such as outsourcing the engagement, helps maintain the integrity and objectivity of the audit process.

References:

- * IIA Standard 1130: Impairment to Independence or Objectivity.
- * IIA Practice Guide: Independence and Objectivity.

NEW QUESTION: 139

Which of the following elements is important for an internal auditor to consider when performing a privacy risk assessment of an organization?

- I. Areas where personal information is collected, used, stored, and disseminated.
- II. Inherent risk.
- III. Privacy practices of competitors.
- IV. Third-party recipients of information.

- A.** III only.
- B.** I, II, and IV only.
- C.** I, II, III, and IV.
- D.** I and II only.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 140

According to IIA guidance, which of the following actions by the chief audit executive (CAE) best demonstrates the organizational independence of the internal audit activity?

- A. The CAE seeks senior management approval of the internal audit charter
- B. The CAE obtains senior management's approval to hire staff
- C. The CAE reports significant issues to the organization's CEO
- D. The CAE provides the board with an annual budget for approval

Answer: (SHOW ANSWER)

The chief audit executive (CAE) best demonstrates the organizational independence of the internal audit activity by providing the board with an annual budget for approval. This action emphasizes the independence from management by ensuring the internal audit budget and resource allocations are directly overseen by the board, thus maintaining an independent status within the organization.

IIA Standard 1110 - Organizational Independence

NEW QUESTION: 141

Which of the following best describes the approach the internal audit activity should take to assess and make appropriate recommendations to improve the organization?

- A. To evaluate an organization's governance processes for making strategic and operational decisions, internal auditors should review the organization's policies and processes related to staff compensation
- B. To determine how an organization provides oversight of its risk management and control activities, internal auditors should review board meeting minutes and the board policy manual
- C. To assess how an organization promotes ethics and values both internally and among its external business partners, internal auditors should review the organization's related objectives, programs, and activities
- D. To evaluate how an organization ensures effective performance management and accountability, internal auditors should review previously conducted risk assessments

Answer: (SHOW ANSWER)

The role of internal auditors in assessing how an organization promotes ethics and values internally and with external business partners involves reviewing the organization's objectives, programs, and activities related to these areas. This approach aligns with the standard practice of internal auditing, which aims to ensure that an organization's processes and policies support its ethical standards and values.

Institute of Internal Auditors (IIA) Standards and Guidelines.

NEW QUESTION: 142

Which of the following engagement areas would allow the internal audit activity to assess organizational governance?

- A. Accounts payable.
- B. Quality control.

- C. Ethics activities.
- D. Regulatory compliance.

Answer: (SHOW ANSWER)

Organizational governance is the combination of processes and structures that help the organization achieve its objectives². Ethics activities are part of organizational governance, as they reflect the organization's values, culture, and ethical standards³. Internal audit can assess the ethics activities by evaluating the design and effectiveness of the ethics program, policies, and procedures, and providing assurance and advice on how to improve them⁴.

References:

- 1: CIA Exam Practice Questions - Certified Internal Auditor 2019
- 2: IIA Audit Tool - The Institute of Internal Auditors or The IIA1
- 3: Internal Audit Governance: Effective Governance through Internal Auditing
- 4: Corporate Governance & Internal Audit | Ideagen

NEW QUESTION: 143

An internal auditor is planning an audit of an organization where temporary employees are suspected of receiving pay for hours they have not worked. Which of the following tasks should not be performed at this stage in the audit?

- A. Obtaining a copy of the contract between the organizations and the temporary employment agency.
- B. Interviewing shift supervisors about their employees' attendance.
- C. Interviewing the manager who requested the audit engagement.
- D. Preparing an engagement program.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 144

Which of the following would decrease or be reduced if an organization establishes and implements excessive internal controls?

- A. Staff productivity.
- B. Activities that add no value.
- C. Complexity of operations.
- D. Production cycle time.

Answer: (SHOW ANSWER)

NEW QUESTION: 145

Which of the following is most likely to impair the organizational independence of the internal audit activity?

- A. The chief audit executive (CAE) reports administratively to the chief financial officer.
- B. The CAE oversees the effectiveness of the organization's risk management function.
- C. The CAE reports functionally to the CEO.

D. The CAE managed the finance department for the past five years.

Answer: A (LEAVE A REPLY)

The organizational independence of the internal audit activity is most likely to be impaired if the chief audit executive (CAE) reports administratively to the chief financial officer (CFO). Reporting to the CFO can create a conflict of interest and reduce the perceived and actual independence of the internal audit function, as the CFO has direct involvement in financial management and operations, which are common subjects of audits.

This reporting structure could potentially limit the CAE's ability to report issues impartially and independently. References: IIA's International Standards for the Professional Practice of Internal Auditing regarding organizational independence.

NEW QUESTION: 146

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: (SHOW ANSWER)

When evidence of multiple incidents of fraud is discovered and there are insufficient controls in place, the internal auditor's most appropriate next step is to discuss the situation with the engagement supervisor to determine whether fraud investigation experts are needed. This step ensures that specialized expertise is considered and engaged if necessary to properly investigate the matter and to determine the appropriate response, including the potential involvement of law enforcement. References: International Standards for the Professional Practice of Internal Auditing on responding to findings and incidents of fraud; guidance on fraud investigation.

NEW QUESTION: 147

A product manager occasionally overrides established purchasing policies in order to expedite the introduction of new products in a competitive industry. The manager's overrides are:

- A.** Unacceptable as they are not consistent with the purchasing policy.
- B.** Only acceptable if the override is within the manager's spending limit.
- C.** Only acceptable if a policy governing such overrides is in place and they are reported.
- D.** Acceptable due to the highly competitive nature of the industry.

Answer: C (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 148

According to IIA guidance, which of the following best demonstrates due professional care?

- A. Staffing audit engagements with internal auditors who possess professional designations.
- B. Relying on prior audit work to save planning time and costs.
- C. Performing assurance procedures to guarantee all significant risks are identified.
- D. Assessing the cost of assurance in relation to the potential benefits.

Answer: D (LEAVE A REPLY)

Demonstrating due professional care involves assessing the cost of assurance in relation to the potential benefits (Option D).

This approach ensures that internal audit resources are used efficiently and effectively, providing value to the organization. According to IIA Standards, Standard 1220: Due Professional Care, internal auditors must consider the extent of work needed to achieve the engagement's objectives and the relative complexity, materiality, or significance of matters to which assurance procedures are applied. Staffing audit engagements with qualified auditors (Option A), relying on prior work (Option B), and guaranteeing identification of all significant risks (Option C) do not fully encapsulate the essence of due professional care, which balances cost and benefit. References:

- * IIA Standards, Standard 1220: Due Professional Care
- * IIA's International Professional Practices Framework (IPPF)

NEW QUESTION: 149

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. Procurement employee survey.
- B. Cross-functional flow chart.
- C. Segregation of duties matrix.
- D. Internal control checklist.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 150

Management is installing security cameras to identify unauthorized physical access to the organization's warehouse. This is an example of which of the following types of controls?

- A. Detective controls.

- B. Key controls.
- C. Primary controls.
- D. Preventive controls

Answer: A (LEAVE A REPLY)

Installing security cameras to identify unauthorized physical access to a warehouse is an example of detective controls. Detective controls are designed to identify and alert the occurrence of an unwanted or risky event, such as unauthorized access, after the fact, allowing for timely corrective action to be taken. References: Basic control types and functions in security management

NEW QUESTION: 151

According to the International Professional Practices Framework, which of the following is the appropriate division of responsibilities for the coordination of internal and external audit efforts?

- I. Oversight of Work Coordination of Activities Chief audit executive Senior management
- II. Board Chief audit executive
- III. Chief financial officer Chief audit executive
- IV. Board Chief financial officer

- A. III.
- B. II.
- C. IV.
- D. I

Answer: B (LEAVE A REPLY)

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NEW QUESTION: 152

Which of the following types of fraud tests would be most effective if an internal auditor was looking for possible fictitious vendors?

- A. Checking for invoice amounts that do not match that of the purchase order.
- B. Searching for identical invoice numbers and payment amounts.
- C. Running checks to uncover post office box addresses matching employee addresses.

D. Comparing prices across vendors to see whether one vendor is unreasonably high.

Answer: C (LEAVE A REPLY)

The most effective type of fraud test for looking for possible fictitious vendors would be running checks to uncover post office box addresses that match employee addresses. This test directly targets a common tactic used in vendor fraud schemes, where employees might set up fictitious vendor accounts and direct payments to themselves via P.O. boxes. IIA resources on auditing for fraud, which often discuss various methods for detecting fictitious vendors, including address comparisons.

NEW QUESTION: 153

Which of the following statements best demonstrates application of due professional care during an assurance engagement?

- A. The engagement detected irregularities and noncompliance instances.
- B. The engagement supervisor had no significant comments in the supervisory review.
- C. The audit procedures were systematically planned, executed, and documented.
- D. The engagement objectives were designed to assist the engagement client.

Answer: (SHOW ANSWER)

Demonstrating due professional care during an assurance engagement, according to IIA standards, includes systematically planning, executing, and documenting audit procedures. This ensures that all aspects of the engagement are covered comprehensively and that findings and conclusions are well-supported and credible.

This approach aligns with the IIA's definition of due professional care, which emphasizes thoroughness and accuracy in the audit process.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 154

According to MA guidance, which of the following is the most accurate statement regarding the internal audit charter?

- A. The IIA's Code of Ethics must exist outside of the charter to maintain independence.
- B. The charter must be approved by both senior management and the board.
- C. The nature of consulting services does not need to be defined in the Internal audit charter.
- D. The charter provides a framework for performing a broad range of value-added audit services.

Answer: B (LEAVE A REPLY)

The most accurate statement regarding the internal audit charter according to IIA guidance is that the charter must be approved by both senior management and the board. This ensures that the internal audit activity's purpose, authority, and responsibility are clearly defined and acknowledged by the organization's leadership, facilitating alignment with

organizational governance. References: The IIA's guidance on internal audit charters, which emphasizes approval by senior management and the board as a key requirement.

NEW QUESTION: 155

A quantitative risk assessment model has all of the following advantages except:

- A. Providing a systematic method of applying weightings to risks and priorities.
- B. Removing the need for judgment on the part of the chief audit executive.
- C. Providing documentation for the chief audit executive, who must defend the long-range audit plan.
- D. Accommodating a large number of risk factors in the assessment.

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 156

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

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 157

Which of the following would be considered a monitoring activity in organization wide risk management?

- A. Validate the results of management's self-assessment.
- B. Perform reviews of personnel.
- C. Maintain rigorous and comprehensive documentation.
- D. Obtain authorizations and signatures.

Answer: ([SHOW ANSWER](#))

A monitoring activity in organization-wide risk management would include validating the results of management's self-assessment. This activity ensures that risk management processes are effective and that self-assessments accurately reflect the risk status, aligning with the role of internal audit in providing assurance over risk management activities. References: COSO framework for risk management; IIA guidance on risk management.

NEW QUESTION: 158

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

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

Answer: C (LEAVE A REPLY)

NEW QUESTION: 159

Which of the following statements best represents the duo professional care that is required of internal auditor's?

- A.** Internal auditors should device internal audit programs to confirm that the results are accurate.
- B.** Internal auditor should not perform consulting engagements for operations for which they had previous responsibilities.
- C.** Internal auditors should consider the cost of assurance in relation to the potential benefits.
- D.** Internal auditors should perform assurance procedures to ensure that all significant risks are identified.

Answer: (SHOW ANSWER)

NEW QUESTION: 160

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

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

Answer: D (LEAVE A REPLY)

NEW QUESTION: 161

A chief audit executive (CAE) submits internal audit activity (IAA) plans and information about significant interim changes to senior management and the board for review. Which other piece of information should the CAE provide to senior management and the board?

- A. Identification of proposed consultants and support staff for the IAA.
- B. The most recent engagement of each member of the audit staff and its duration.
- C. The CAE's preferred statistical analysis methods and relevant software to be utilized.
- D. Resource requirements and resource limitations.

Answer: D ([LEAVE A REPLY](#))

Section: Volume C

Explanation

NEW QUESTION: 162

When planning an audit engagement, what should an internal auditor first consider when assessing the risk of fraud in the area to be audited?

- A. Organizational structure.
- B. Existence of evidence of fraud.
- C. Impact of and exposure to fraud.
- D. Management's risk appetite.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 163

An auditor is using audit software to check inventory accuracy.

Which of the following would be an indicator of poor input edit controls?

- A. Negative quantities on hand.
- B. Alpha characters in the field for order lead time.
- C. Reorder levels set too high.
- D. Total dollar values of zero for some parts.

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 164

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: ([SHOW ANSWER](#))

NEW QUESTION: 165

Management of a publicly-held organization requires the internal audit activity to be involved with quarterly financial statements, which are made public and used internally. Which of the following explanations of management's decision is least plausible?

- A.** Management may be concerned about its reputation in the financial markets.
- B.** Management is following best-practice protocol, as stipulated by the Standards, which states that internal auditors must review quarterly financial statements.
- C.** Management may be concerned about potential penalties that could occur if quarterly financial statements are misstated.
- D.** Management may perceive that having quarterly financial information examined by the internal auditors enhances the information's value to internal decision making.

Answer: B (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 166

Which of the following statements is true regarding control activities'?

- A.** Control activities are defined by management through risk mitigation strategies
- B.** Control activities should be defined for all business processes
- C.** If two organizations have identical objectives and structures their control activities would be the same
- D.** Organizations that are less regulated generally have more complex control activities than highly regulated organizations

Answer: A (LEAVE A REPLY)

Control activities are specific actions defined by management aimed at mitigating risk to the achievement of objectives. They are part of the broader internal control framework, which management designs according to the organization's risk management strategies. These activities can vary widely across different organizations depending on the specific risks they face and the strategies management employs to mitigate these risks. References: COSO Framework on Internal Controls

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NEW QUESTION: 167

Which of the following is an indicator that the organization's risk management process is effective?

- A. The organization's risk appetite, mission, and objectives are clearly outlined.
- B. The organization's risk management practices are assessed as mature.
- C. The organization has adopted risk management frameworks and global models.
- D. The organization's significant risks are identified and adequately assessed.

Answer: D (LEAVE A REPLY)

An effective risk management process is indicated by the organization's ability to identify and adequately assess significant risks. This involves understanding the full range of potential risks the organization faces and evaluating their magnitude and likelihood in a way that aligns with the organization's risk appetite and capacity. This ability ensures that strategic decisions are informed and that risks are managed proactively.

References: COSO Framework on Enterprise Risk Management, which outlines the importance of identifying and assessing risks in relation to an organization's objectives.

NEW QUESTION: 168

Which of the following policies promotes internal audit objectivity?

- A. The chief audit executive (CAE) reports functionally to the CEO
- B. The CAE's compensation is approved by the chief financial officer
- C. The CAE's appointment is determined by the CEO
- D. The CAE reports administratively to the chief operating officer

Answer: A (LEAVE A REPLY)

Reporting functionally to the CEO can promote internal audit objectivity. This arrangement helps ensure that the Chief Audit Executive (CAE) has the necessary independence from the areas being audited and sufficient authority to carry out audit responsibilities effectively. While ideally, the CAE should report functionally to the board for maximum objectivity, reporting to the CEO is a common practice that supports operational independence from direct operational management, such as the CFO or COO. IIA guidance on reporting lines and independence.

NEW QUESTION: 169

Which of the following is a primary responsibility of senior management with respect to ethical violations?

- A. Senior management provides oversight for the organization's ethical climate.
- B. Senior management reviews major ethical policies in the organization for compliance.
- C. Senior management assesses the effectiveness of the organization's ethical programs.
- D. Senior management promotes an ethical culture in the organization.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 170

The main reason to establish internal controls in an organization is to:

- A. Provide reasonable assurance on the achievement of objectives.
- B. Ensure the accuracy, reliability, and timeliness of information.

- C. Safeguard the resources of the organization.
- D. Encourage compliance with policies and procedures.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 171

An internal auditor is researching the laws and regulations related to a city's grant program. Which of the following procedures is least relevant to this task?

- A. Making inquiries of the audit committee about the nature of the grants.
- B. Reviewing prior-year workpapers and asking officials if there have been any changes.
- C. Reviewing applicable grant agreements.
- D. Discussing the matter with the city's chief financial officer, legal counsel, or grant administrators.

Answer: ([SHOW ANSWER](#))

Section: Volume D

NEW QUESTION: 172

Which of the following statements is true regarding consulting engagements?

- A. Internal auditors cannot provide consulting services related to operations for which they had previous responsibilities.
- B. The nature of consulting services to be performed by internal auditors must be defined in the internal audit charter
- C. If internal auditors have potential impairments to objectivity related to the proposed consulting engagement, the engagement must be declined.
- D. If internal auditors lack the knowledge, skills, or other competencies needed to perform the consulting engagement, the engagement can proceed with proper disclosures.

Answer: ([SHOW ANSWER](#))

According to IIA standards, the nature of consulting services to be performed by internal auditors must be defined in the internal audit charter. This helps ensure clarity and alignment between the internal audit activity's objectives and the organization's expectations, while also providing a framework that guides the consulting services provided by internal auditors.

IIA Standard 1000 - Purpose, Authority, and Responsibility, which includes guidelines on the content of the internal audit charter, including the scope of consulting services.

NEW QUESTION: 173

An internal auditor is performing analytical reviews as part of an audit of a supermarket's merchandising department. Because the economy has declined since midyear, the auditor can expect to encounter which of the following?

- A. Higher inventory turnover.
- B. Lower obsolete stock disposal.
- C. Lower sales volume.

D. Higher operating margin.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 174

During the planning phase of an audit, an internal auditor preliminarily concluded that the controls for a process were adequately designed to manage the associated risk. Under what conditions might this preliminary assessment subsequently prove to be unreliable?

- A. Redundant controls are not in place to enhance well designed controls.
- B. Process controls were not developed from an existing key control checklist.
- C. Compensating controls from other processes were not present.
- D. Entity level controls are informal and not consistently enforced.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 175

A headquarters-based internal auditor has been sent to a major overseas subsidiary to conduct various engagements. Initially, the internal auditor spends time to become familiar with local customs and organization's practices while embarking on the first engagement. Which of the following competencies does the internal auditor exercise?

- A. Persuasion and collaboration.
- B. Governance, risk, and control.
- C. Business acumen.
- D. Communication.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 176

The chief audit executive (CAE) has been asked to manage the regulatory compliance function for the organization's retail store operations. Store operations are included in the annual audit plan. Which of the following strategies best fulfills the requirements of the Standards regarding these audits?

- A. Store operations audits should be performed by an external service provider.
- B. Store operations audits can be fully executed with appropriate disclosure to the board.
- C. A store operations compliance audit should be performed by a staff internal auditor under the direction of the CAE.
- D. The scope of store operations audits should exclude compliance.

Answer: (SHOW ANSWER)

NEW QUESTION: 177

Which of the following measurements could an auditor use in an audit of the efficiency of a motor vehicle inspection facility?

- A. The ratio of cars rejected to total cars inspected.
- B. The number of cars inspected per inspection agent.

- C. The average amount of fees collected per cashier.
- D. The total number of cars approved.

Answer: (SHOW ANSWER)

NEW QUESTION: 178

Which of the following statements is true regarding the disclosure of results of the quality assurance and improvement program?

- A. If the results of both internal and external assessments support conformance with the Standards, the internal audit activity must communicate this to the board and senior management in writing.
- B. If it has been in existence fewer than five years and has no documented external assessment, the internal audit activity may not indicate that it is operating in conformance with the Standards.
- C. If nonconformance affects its ability to fulfill its professional responsibilities or stakeholder expectations, the internal audit activity should disclose nonconformance as well as its impact.
- D. If an external assessment reflects an overall conclusion of nonconformance, the internal audit activity may continue to communicate that it conforms with the Standards if it discloses a remediation plan, including timeline with subsequent validation.

Answer: C (LEAVE A REPLY)

According to IIA standards, if nonconformance with the Standards affects the internal audit activity's ability to fulfill its professional responsibilities or meet stakeholder expectations, the internal audit activity should disclose the nonconformance and its impact. This is essential for maintaining transparency and accountability, ensuring that all stakeholders are informed of the internal audit's effectiveness and areas needing improvement. IIA Standard 1322 - Disclosure of Nonconformance, which outlines requirements for disclosing the results of quality assurance and improvements, particularly concerning nonconformance.

NEW QUESTION: 179

Which of the following describes a primary responsibility for the internal audit activity in helping management maintain effective controls?

- A. Promoting continuous evaluation
- B. Promoting continuous monitoring
- C. Promoting continuous improvement
- D. Promoting continuous reporting

Answer: B (LEAVE A REPLY)

The primary responsibility for the internal audit activity in helping management maintain effective controls is promoting continuous monitoring. Continuous monitoring involves regularly reviewing control processes and performance to ensure they are effective and making adjustments as necessary. This proactive approach enables the internal audit

activity to assist management in maintaining a robust control environment that can adapt to changes in the organization or its external environment. References: The IIA's International Standards for the Professional Practice of Internal Auditing regarding monitoring and control.

NEW QUESTION: 180

An organization references a customer order with an approved customer file and credit limit before accepting an order. Which type of control does this process exemplify?

- A. Information processing.
- B. Quality control monitoring.
- C. Direct functional management.
- D. Performance indicators.

Answer: (SHOW ANSWER)

NEW QUESTION: 181

Two individuals are being considered for an audit team that is to perform a highly technical review.

Which of the following situations would preclude selection of the individual for the audit due to an objectivity concern?

I. Person A is a member of the internal audit staff and has the required technical skills.

Person A participated in a controls review of the system to be audited when it was being developed.

II. Person B is a technical specialist who understands the audit area but is not a member of the internal audit staff. Although person B has personal credibility in the information systems department to be audited, person B works for another department in the organization.

- A. I only
- B. Both I and II.
- C. II only
- D. Neither I nor II.

Answer: D (LEAVE A REPLY)

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NEW QUESTION: 182

An auditor for a large wholesaler is evaluating the controls over the approval and oversight of credit sales.

Which of the following procedures would be a control weakness?

- A. The credit department is responsible for approving shipments to all customers
- B. The finance committee of the board of directors periodically reviews credit standards
- C. Customers who fail to meet credit requirements must pay cash for shipments upon delivery
- D. The sales department is responsible for determining the credit ratings of customers

Answer: D (LEAVE A REPLY)

A control weakness in the oversight of credit sales is evident when the sales department is responsible for determining the credit ratings of customers. This structure can lead to a conflict of interest, as the sales department may be motivated to approve higher credit limits or overlook credit standards to increase sales figures. This undermines the objectivity and effectiveness of the credit approval process, which should ideally be handled by an independent department such as credit control to ensure unbiased evaluation. References: Internal control frameworks and auditing standards that emphasize segregation of duties and the independence of critical control activities.

NEW QUESTION: 183

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

Answer: A (LEAVE A REPLY)

NEW QUESTION: 184

Which of the following statements is true with regard to governance?

- A. Governance activities are uniform for organizations in the same industry.
- B. Governance activities support the organization's risk management framework.
- C. Internal control within an organization is supported by governance activities.
- D. Cultural risk factors can impede the operation of governance activities.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 185

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: D (LEAVE A REPLY)

The chief audit executive (CAE) would be required to decline a consulting engagement if there is no available expertise on the internal audit team to perform it. According to IIA standards, internal auditors must possess the knowledge, skills, and other competencies needed to perform their responsibilities. Accepting an assignment without the requisite expertise could impair the effectiveness and credibility of the audit function. References: IIA Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 186

According to the International Professional Practices Framework, risk is:

- I. Defined as the negative effect of events that are expected to occur.
- II. Measured in terms of consequences.
- III. Measured in terms of likelihood.

- A. I, II, and III.
- B. II and III only
- C. I only
- D. I and II only

Answer: (SHOW ANSWER)

NEW QUESTION: 187

Which of the following would be the most effective action for an internal audit activity to take in order to assist in improving an organization's ethical climate?

- I. Review formal and informal processes within the organization that could promote unethical behavior.
- II. Conduct surveys of employees, suppliers, and customers regarding ethics.
- III. Assess the employees' knowledge of and compliance with the organization's code of conduct.

- A. I only
- B. I and II only
- C. II and III only
- D. I, II, and III.

Answer: D (LEAVE A REPLY)

Section: Volume B

Explanation/Reference:

NEW QUESTION: 188

Which of the following best describes the type of organizational culture known as 'adaptability culture'?

- A. A results-oriented culture that values competitiveness and personal initiative
- B. A culture that places high value on participation and meeting the needs of employees.
- C. A culture that is characterized by low involvement with environmental and health issues
- D. A culture that emerges in quick-response and high-risk decision-making environments

Answer: D (LEAVE A REPLY)

NEW QUESTION: 189

Which of the following scenarios best demonstrates the application of internal audit proficiency?

- A. Management requests that the internal audit activity review and provide feedback on its strategic plans for a merger, but the chief audit executive (CAE) declines the engagement due to the team's lack of experience with mergers.
- B. A CAE reassigns auditors from other audits to perform testing on all of the fixed asset additions for a period, including amounts below the materiality level stated by external auditors.
- C. Due to the routine and recurring nature of bank branch audits, an audit manager often excludes detailed planning at the beginning of the audit and immediately performs fieldwork.
- D. During fieldwork, an auditor observed a lack of segregation of duties over cash management. The auditor reported this observation to his supervisor, who decided that the area should be examined in a subsequent audit.

Answer: (SHOW ANSWER)

The scenario where the chief audit executive (CAE) declines a request to review and provide feedback on strategic plans for a merger due to the team's lack of experience with mergers demonstrates internal audit proficiency. Proficiency in internal auditing involves understanding and applying knowledge, skills, and competencies to perform tasks according to professional standards. Recognizing the limitations of the audit team's expertise and declining engagements that exceed their proficiency safeguards the quality and reliability of the audit function. References: IIA Standard 1210 - Proficiency, which mandates that internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.

NEW QUESTION: 190

In which of the following scenarios would the internal auditor's objectivity be best protected?

- A. A former human resources manager conducts an effectiveness review of the appointment and termination process six months after transferring to the internal audit activity.
- B. An internal auditor conducts an effectiveness review of an organization's business continuity plan in which his son is a minority stockholder.
- C. An accounts payable clerk assists the internal auditors during an effectiveness review of the physical access controls to the server room.
- D. An internal auditor writes the system manual for a newly acquired payroll software application prior to conducting an effectiveness review of the system.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 191

Which of the following is most likely to be considered a control weakness?

- A. Vendor invoice payment requests are accompanied by a purchase order and receiving report.
- B. Purchase orders are typed by the purchasing department using prenumbered forms.
- C. Buyers promptly update the official vendor listing as new supplier sources become known.
- D. Department managers initiate purchase requests that must be approved by the plant superintendent.

Answer: D (LEAVE A REPLY)

A control weakness in the context of internal control over purchasing might be seen in the process where department managers initiate purchase requests that must be approved by the plant superintendent. If the approval process is not robust, this could lead to conflicts of interest or lack of independent review, especially if the superintendent has significant influence or control, and there are no further checks or balances. This situation could potentially allow for inappropriate approvals without sufficient oversight, representing a control weakness. References: Internal control frameworks, such as COSO (Committee of Sponsoring Organizations of the Treadway Commission).

NEW QUESTION: 192

Which of the following statements is true regarding the quality assurance and improvement program (QAIP)?

- A. Reporting on the QAIP to the board should occur at least once every five years
- B. The responsibility for the selection of an external assessor rests with the board
- C. The qualifications of the assessors must be communicated to the board
- D. The reporting of outcomes of the QAIP can be delegated to senior audit staff

Answer: C (LEAVE A REPLY)

The qualifications of the assessors must be communicated to the board. This requirement ensures that the board is aware of the credibility and expertise of the external assessors, affirming that the quality assurance review is conducted by professionals with the necessary skills and experience. This is crucial for maintaining trust in the QAIP process and its outcomes. References: IIA Standard on Quality Assurance and Improvement Program

NEW QUESTION: 193

Which of the following are appropriate responsibilities of the audit committee in relation to the chief audit executive (CAE)?

1. Approving the internal audit charter.
2. Approving decisions regarding the appointment and removal of the CAE.
3. Approving the risk management strategy for the organization.
4. Making appropriate inquiries of management and the CAE to determine whether there are inappropriate scope and resource limitations.

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

Answer: C (LEAVE A REPLY)

Section: Volume C

NEW QUESTION: 194

Which of the following statements is true regarding control activities?

- A. Control activities provide the foundation for the organization to establish its risk appetite.
- B. Control activities are implemented by internal auditors to mitigate risks to an acceptable level.
- C. Control activities are a precondition to setting risk tolerance levels.
- D. Control activities are carried out by first-line and second-line functions to mitigate risks.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 195

When reviewing operational risk for a department whose manager adopts a laissez-faire style of leadership, it is most important for the internal auditor to verify that:

- A. Employees are empowered to deal with unusual or emergency situations.
- B. The manager considers employees' input when designing new procedures.
- C. Employee decisions follow department and company guidelines.
- D. Management has adopted an open-door policy to assist with communication.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 196

A company produces a product that consists of materials X, Y, and Z. The product is mixed so that:

The quantity of material X used is one-third more than that of material Y.

The quantity of material Y used is one-fourth less than that of material Z.

If the company used 24, 000 units of material Z during a period, what is a reasonable estimate of the amount of material X used?

A. 24, 000

B. 8, 000

C. 18, 000

D. 32, 000

Answer: A (LEAVE A REPLY)

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NEW QUESTION: 197

Which of the following should catch the internal auditor's attention as a potential red flag for fraud?

A. The accounting unit keeps detailed records and preserves supporting documentation in excess of company requirements

B. One of the subsidiaries has more bank accounts than any other comparable subsidiary

C. The same external audit firm has been with the company for three years without rotation

D. The arithmetic median tenure of employees working at production facilities is 15 years

Answer: B (LEAVE A REPLY)

Having more bank accounts than necessary can be a red flag for fraud, especially in a subsidiary compared to its peers. This scenario (option B) might indicate complexity that is unnecessary and could be used to conceal improper transactions or facilitate unauthorized movements of funds. Excessive bank accounts can complicate tracking and reconciling of funds, which can be exploited for fraudulent purposes. This potential red flag should prompt further investigation by the internal auditor.

IIA guidance on fraud risk indicators

NEW QUESTION: 198

The top three sales representatives for a company consistently include non-allowable charges on their expense reports. Line management is reluctant to deny reimbursement of

the charges for fear of losing the sales representatives. This situation has the greatest negative impact on which of the following internal control components?

- A. Control activities.
- B. Information and communication.
- C. Control environment.
- D. Monitoring.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 199

Which of the following best describes the misdirection of payments on accounts receivable to an employee's bank account?

- A. Fraud off the books.
- B. Fraud open on the books.
- C. Fraud on the balance sheet.
- D. Fraud hidden on the books.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 200

Which of the following tests would most likely help discover a fictitious invoice?

- A. Check employee bank records against invoice amounts.
- B. Match cancelled checks to invoices.
- C. Compare vendor addresses to employee addresses.
- D. Search for duplicate payment amounts.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 201

An internal auditor is trying to evaluate what could go wrong after determining that a risk management technique is operating effectively. What type of risk is the auditor assessing?

- A. Inherent risk.
- B. Residual risk.
- C. Impact risk.
- D. Detection risk.

Answer: B ([LEAVE A REPLY](#))

Residual risk is the remaining risk after management has implemented risk responses. The auditor is assessing what could still go wrong despite the effectiveness of the risk management technique in place, which is evaluating the remaining exposure to risk.

References:

- * IIA Standard 2120: Risk Management.
- * COSO Enterprise Risk Management Framework.

NEW QUESTION: 202

Which of the following techniques would best assist an internal auditor in evaluating the efficiency of a wholesale grocery distributor's process to fill and package orders for shipping?

- A. Queuing theory to assess potential bottlenecks in the process.
- B. Decision trees rating actual performance against requirements.
- C. A program evaluation and review technique chart.
- D. A Benford analysis of orders filled to average delivery times.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 203

Which of the following best demonstrates the board of directors' governance over internal control?

- A. The board is responsible for succession planning for the CEO and other key members of the executive management team.
- B. The board may be assisted by an audit committee, chaired by the chief audit executive.
- C. The majority of board members are experienced and qualified members of the organization's executive management team.
- D. The board bears direct responsibility for developing and implementing the internal control system.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 204

In which of the following scenarios is the internal auditor in conformance with The IIA's Code of Ethics and the Standards?

- A. The auditor testifies in front of a jury about an organization's fraudulent financial practices after receiving a subpoena
- B. Management has agreed to remedy a significant control deficiency, so the auditor excludes the deficiency from the engagement report
- C. The chief audit executive declines an assurance engagement in IT because the internal audit activity is not proficient in IT
- D. The auditor communicates an audit opinion on fraud risk during an audit engagement's preliminary fraud risk assessment

Answer: ([SHOW ANSWER](#))

The internal auditor is in conformance with The IIA's Code of Ethics and the Standards when testifying in front of a jury about an organization's fraudulent financial practices after receiving a subpoena. This action aligns with the ethical principles of integrity and objectivity, and the auditor is fulfilling their legal obligations while maintaining professional standards.

IIA Code of Ethics and Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 205

Which of the following is an appropriate role for the internal audit activity?

- A. Validating control assessments performed by the external auditor.
- B. Ensuring the organization's key risks are managed through appropriate controls.
- C. Assisting the organization in maintaining effective controls.
- D. Implementing new controls to promote continuous improvement

Answer: B (LEAVE A REPLY)

NEW QUESTION: 206

Which of the following is an example of an entity-level control pertaining to the finance area of an organization?

- A. Key account reconciliation such as bank reconciliation
- B. Segregation of duties between posting and reviewing journal entries
- C. A signing authority matrix for spending approvals
- D. The establishment of a finance and audit committee

Answer: D (LEAVE A REPLY)

An example of an entity-level control pertaining to the finance area of an organization is "The establishment of a finance and audit committee." This is a governance control that provides oversight of financial reporting, internal controls, and audit functions, and is designed to ensure integrity and accuracy in financial statements and compliance with laws and regulations.

References: COSO Framework on Internal Control

NEW QUESTION: 207

An internal auditor is preparing a draft observation based on her assessment of an accounts payable process.

Which of the following is a process recommendation?

- A. Authorization policy for accounts payable was not followed for payments above \$10,000.
- B. Authorization policy requires two levels of approval for all payments above \$10,000.
- C. Because of non-compliance with authorization policy, inappropriate payments may be made for payments above \$10,000.
- D. The accounts payable authorization actions for all payments should be automated.

Answer: (SHOW ANSWER)

Section: Volume D

NEW QUESTION: 208

Which of the following most accurately describes corporate social responsibility at an organization?

- A. An organizational focus on improving the overall environment, even if it is to the detriment of the local community.

- B.** An overall commitment of the organization to improve the quality of life for not only the employees but the community at large.
- C.** A philosophy driven by employees that flows up to senior management and the board of directors.
- D.** A policy of ensuring that the organization is socially responsible, even if it leads to unprofitability due to increased costs.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 209

Some of a company's payroll transactions were batch posted to the payroll file but were not uploaded correctly to the general ledger file on the mainframe. The best control to detect this type of error would be.

- A.** Appropriate segregation of duties for batch approval.
- B.** Reconciliation of paychecks to the bank account.
- C.** Edit controls on the payroll file.
- D.** Validation of hash totals.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 210

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

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

Answer: A (LEAVE A REPLY)

Section: Volume F

NEW QUESTION: 211

An internal auditor must determine which components of an organization's telecommunications may introduce the greatest risk. Which of the following tasks should the internal auditor complete first?

- A.** Identify the network operating costs.
- B.** Ascertain the business purpose of the network.
- C.** Review the open systems interconnect network model.
- D.** Map the network software and hardware products into their respective layers.

Answer: B (LEAVE A REPLY)

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NEW QUESTION: 212

Which of the following demonstrates that the internal audit activity exercises due professional care?

- A. A self-assessment is conducted through the quality assurance and improvement program every five years
- B. Supervisors provide feedback to internal auditors after workpapers are reviewed
- C. Internal auditors are required to give absolute assurance of regulatory compliance
- D. The chief audit executive reports functionally to the board

Answer: B (LEAVE A REPLY)

NEW QUESTION: 213

Which of the following actions by an internal auditor would be the most relevant to determine the effectiveness of controls?

- A. Participate in a fraud risk-assessment session as an in-house facilitator.
- B. Send regular written updates to senior management on new control-related regulations.
- C. Lead a seminar on internal controls and provide numerous examples to the audience.
- D. Conduct a surprise inventory count at the raw materials warehouse.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 214

Which of the following characteristics is typical of the internal audit activity?

- A. Serves third parties that need reliable financial information from audit engagements
- B. Responds to the needs and desires of senior management and the board, but remains independent of areas under review
- C. Ensures the organization complies with laws and regulations in the area under review
- D. Is completely independent of senior management, the board and the area under review

Answer: (SHOW ANSWER)

A characteristic typical of the internal audit activity is that it responds to the needs and desires of senior management and the board, but remains independent of the areas under review. This ensures that while internal audit activities are aligned with the strategic priorities of the organization, they maintain an unbiased stance that is critical for effectively assessing risk and control processes.

IIA's International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 215

The chief audit executive (CAE) of a new internal audit activity is creating an internal audit charter. According to IIA guidance, which of the following terms is most likely to be included in the charter?

- A. Internal auditors will advise on the design of control policies and procedures in any area where the organization does not possess the requisite expertise,
- B. Internal auditors will demonstrate competence, concern, and the dedication expected of a professional,
- C. Internal auditors will receive performance-based compensation, including bonuses for reporting more than a stipulated number of observations.
- D. Senior management will be present whenever the CAE interacts with the board, to ensure effective communication among all three parties.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 216

According to IIA guidance, which of the following actions best demonstrates that due professional care has been considered by the internal audit activity when conducting a review of an organization's assets?

- A. Determining whether any opportunity exists for senior executives to misappropriate property or funds
- B. Having senior management determine whether the degree of work planned is sufficient to meet engagement objectives
- C. Planning and executing fieldwork in a complete and timely manner to identify all significant risks
- D. Verifying whether the board of directors has implemented effective internal controls

Answer: C (LEAVE A REPLY)

NEW QUESTION: 217

According to IIA guidance, which of the following practices by the chief audit executive (CAE) best enhances the organizational independence of the internal audit activity?

- A. CAE reviews and approves the annual audit plan,
- B. CAE reports to the board regarding audit staff performance evaluation and compensation.
- C. CAE meets privately with the board at least annually,
- D. CAE meets privately with the CEO at least annually.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 218

Which of the following statements is true regarding an organization's code of ethics?

- A. It should be written with primary consideration given to using a rule-based approach.

B. It should be of two variations: one applicable internally and one applicable for third parties.

C. Its operational effectiveness cannot be tested using traditional audit and rating systems such as maturity models.

D. It should require an annual attestation of compliance with the code of conduct by all employees.

Answer: (SHOW ANSWER)

An organization's code of ethics typically requires an annual attestation of compliance with the code of conduct by all employees. This practice helps reinforce the importance of ethical standards and ensures that all employees are regularly reminded of their ethical obligations. It is a common element in effective ethics programs, serving both as a reminder and a mechanism for enforcing the code. References: Best practices in corporate governance and ethics.

NEW QUESTION: 219

A bank uses a risk analysis matrix to quantify the relative risk of auditable entities. The analysis involves rating auditable entities on risk factors using a scale of 1 to 10, with 10 representing the greatest risk. A partial list of risk factors and the ratings given to three of the bank's departments is provided below:

Department

Risk Factor

A

B

C

Control structure

9

5

7

Nature of assets in department

2

7

9

Dollar value of assets

6

6

8

Complexity of transactions

3

4

8

Which of the following statements regarding risk in the departments is true?

- A.** The nature of department A's control structure may be justified by the nature of the department's assets and the complexity of its transactions.
- B.** The relative ranking of the departments in order of their risk, from greatest to least risk, is: A; C; B.
- C.** As compared to departments A and C, department B has a stronger control system to compensate for the greater complexity of the department's transactions and dollar value of its assets.
- D.** The internal audit activity should schedule audits of department B more often than audits of department C because of the relative control strength of department C as compared to department B.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 220

Which of the following actions should the organization's governing body perform to provide the most effective governance over the organization's culture?

- A.** Coordinate control activities.
- B.** Deliver assurance.
- C.** Provide direction.
- D.** Design key controls.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 221

Which of the following would be a violation of the IIA Code of Ethics?

- A.** Reporting information that could be damaging to the organization, at the request of a court of law.
- B.** Including an issue in the final audit report after management has resolved the issue.
- C.** Participating in an audit engagement for which the auditor does not have the necessary experience or training.
- D.** Accepting a gift that is a commercial advertisement available to the public.

Answer: C (LEAVE A REPLY)

Section: Volume A

NEW QUESTION: 222

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.** Conduct lessons learned sessions to ascertain how the fraud occurred and which controls failed.
- B.** Determine why The fraud was not detected earlier and design controls to strengthen early detection.

- C. Review the investigation and implement any improvements to the process.
- D. Plan employee sessions and team building strategies for the organization to improve awareness of fraud among employees.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 223

According to IIA guidance, which of the following individuals would best be considered independent for the purpose of participating in an external assessment of the quality assurance and improvement program for an internal audit activity (IAA)?

- A. A former employee knowledgeable of the IAA who resigned three years earlier from the organization.
- B. An employee in the parent organization who has not had any previous contact with the IAA.
- C. An employee in an affiliated organization who has never worked directly with the IAA.
- D. A competent employee of an independent external organization that provides cosourcing services to the IAA.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 224

An organization is conducting a fraud risk assessment as part of its risk management program.

Which of the following steps is the organization most likely to perform first?

- A. Identify red flags by conducting data analysis.
- B. Identify relevant fraud risk factors.
- C. Identify potential fraud schemes.
- D. Identify existing controls for preventing and detecting fraud.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 225

An internal auditor assessed the controls within his organization's payroll process and suspects that erroneous payments may have been made to a fraudulent bank account.

What is the best course of action for the auditor to take?

- A. Speak to the payroll manager so he may investigate the auditor's observations.
- B. Stop the audit and report the findings to senior management immediately.
- C. Escalate the concern to the engagement supervisor.
- D. Continue to investigate the payments to confirm the accuracy of the observations, and determine whether further fraudulent payments have been made.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 226

According to HA guidance, which of the following would best support the internal auditor's conclusion that the organization's risk management processes are effective?

- A. The organization has identified all applicable operational and financial risks.
- B. The organization has documented its strategic and business objectives.
- C. The organization has selected risk responses aligned with its risk appetite.
- D. The organization has documented risk information pertinent to its business.

Answer: C (LEAVE A REPLY)

According to the guidance from The IIA (International Professional Practices Framework - IPPF), the most robust support for concluding that an organization's risk management processes are effective is the alignment of selected risk responses with the organization's risk appetite. This indicates that the organization not only understands its risks but also manages them in a manner consistent with its capacity and willingness to accept risk. It reflects a mature risk management process where risks are identified, assessed, and managed in alignment with strategic objectives and risk appetite, ensuring that the organization is not taking on more risk than it can handle or than is acceptable to its stakeholders. References:

* IIA Practice Guide on Assessing the Adequacy of Risk Management Processes.

* COSO Enterprise Risk Management Framework.

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NEW QUESTION: 227

According to the Standards, which of the following statements best describes the required content of the chief audit executive's (CAE) report to senior management and the board on the internal audit activity (IAA)?

- A. The CAE must report on auditors' continuing education activities, staffing changes, and any outsourcing to external parties.
- B. The CAE must report on quality assurance techniques, statistical analysis methods, and other analytical processes used.
- C. The CAE must report on significant risk exposures, control issues, and governance issues.
- D. The CAE must report on policies, procedures, and best practices of the IAA.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 228

Risk assessments are valuable to the internal audit activity's planning process because they assist in:

- A. Eliminating all areas with low risk from the audit plan.
- B. Educating management on the importance of keeping the internal audit activity informed of organizational changes.
- C. Identifying the audit universe or auditable activities that need to be reviewed.
- D. Identifying risks that management and the internal auditors have overlooked.

Answer: C (LEAVE A REPLY)

Section: Volume B

NEW QUESTION: 229

Which of the following statements is true regarding the role of the internal audit activity in the organization's risk management process?

- A. The internal audit activity should not be responsible for developing the organization's risk management framework, even with appropriate safeguards.
- B. The internal audit activity is typically responsible for alerting operational management to emerging risks and changes in regulatory scenarios
- C. The internal audit activity may coach management on risk response scenarios if safeguards have been implemented.
- D. The internal audit activity should avoid giving assurance regarding the accuracy of risk evaluations if safeguards have not been implemented.

Answer: C (LEAVE A REPLY)

The correct statement regarding the role of the internal audit activity in the organization's risk management process is that the internal audit activity may coach management on risk response scenarios if appropriate safeguards have been implemented. This coaching role helps management understand and address risks effectively while maintaining the audit function's objectivity and independence.

The IIA's guidance on the role of internal auditing in risk management and the standards regarding objectivity and consulting.

NEW QUESTION: 230

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 (LEAVE A REPLY)

Section: Volume F

NEW QUESTION: 231

According to IIA guidance, which of the following statements is true regarding ISO 31000?

- A.** The key principles approach checks whether each element of the risk management process is in place.
- B.** The framework is effective in addressing the organization's structure, size, and risk profile but not its culture objectives.
- C.** The end point for improving an organization's approach to risk management should be a gap analysis that evaluates any changes.
- D.** A combination of the three primary approaches to the framework generally yields the most information despite the complexity

Answer: D (LEAVE A REPLY)

According to IIA guidance, ISO 31000 recommends that utilizing a combination of the three primary approaches to the framework (ISO 31000) often provides the most comprehensive insights despite the complexity involved. This approach allows for a more robust and holistic understanding of the organization's risk management practices by integrating multiple perspectives and methodologies.

The Institute of Internal Auditors (IIA) provides guidance on utilizing standards such as ISO 31000 in internal audit practices, emphasizing the value of a comprehensive approach.

NEW QUESTION: 232

According to IIA guidance, which of the following is the strongest indicator of deficiencies in the risk management process?

- A.** Separate evaluations of the risk management process were conducted, but the results were never integrated.
- B.** Many aspects of the related enterprise risk management program are informal and undocumented.
- C.** The periodic evaluation of risk ratings is primarily dependent on subjective assessments.
- D.** Management's primary objective is minimizing changes to the structure and operation of the risk management process.

Answer: (SHOW ANSWER)

NEW QUESTION: 233

To assure that the technical proficiency of internal auditors is appropriate for the audit engagements to be performed, a chief audit executive should:

- A.** Oversee a training program that matches the actual training provided with the interests of individual auditors.
- B.** Require all of the audit staff to pursue a minimum number of continuing professional education hours each year.
- C.** Ensure that each newly hired auditor is qualified in all of the disciplines needed to accomplish the department's audit mission.

D. Consider the scope of work and level of responsibility when establishing criteria for education and experience in filling internal auditing positions.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 234

Which of the following is part of a fraud detection program?

- A.** Whistleblower hotline.
- B.** Authority limits.
- C.** Background investigations
- D.** Evaluation of compensation programs.

Answer: **A** ([LEAVE A REPLY](#))

A whistleblower hotline is part of a fraud detection program. Whistleblower hotlines are critical as they provide a confidential means for employees and others to report suspicious activities or concerns about fraud, thereby aiding in the early detection and investigation of potential fraudulent activities within an organization. References: IIA guidance and fraud risk management frameworks that identify whistleblower programs as an essential element of an effective fraud detection system.

NEW QUESTION: 235

Which of the following statements demonstrates that internal auditors are in conformance with the standard of due professional care?

- A.** Internal auditors have shown they have the freedom to carry out their responsibilities.
- B.** Internal auditors have demonstrated the skills needed to carry out the audit engagement.
- C.** Internal auditors have strictly followed a formal audit process in conducting their work.
- D.** Internal auditors have demonstrated an unbiased mental attitude.

Answer: ([SHOW ANSWER](#))

According to the International Standards for the Professional Practice of Internal Auditing (Standards), internal auditors must exhibit due professional care in their work. Due professional care implies that internal auditors must apply the care and skill expected of a reasonably prudent and competent auditor. Standard 1220 of the IIA's International Standards states that internal auditors must consider the use of technology-based audit and other data analysis techniques. Furthermore, they should be alert to the significant risks that might affect objectives, operations, or resources. Demonstrating the necessary skills and proficiency (Option B) directly aligns with the requirement of due professional care, as it ensures that auditors have the capability to identify and manage risks effectively. References:

* IIA Standards, Standard 1220: Due Professional Care

* IIA's International Professional Practices Framework (IPPF)

NEW QUESTION: 236

In an environment where employees are frequently penalized for mistakes and the organizational culture is one of fear and blame which of the following is an internal auditor most likely to find?

- A. Management regularly overrides key controls
- B. Employee turnover is low
- C. Careless behavior becomes normal
- D. Employee morale is low

Answer: (SHOW ANSWER)

In an organizational culture characterized by fear and blame, where employees are frequently penalized for mistakes, internal auditors are most likely to find low employee morale. Such an environment can lead to a lack of trust and motivation among employees, reducing their willingness to take initiative or innovate. Low morale can negatively impact productivity, increase turnover, and contribute to a toxic workplace culture.

Recognizing these signs is crucial for internal auditors when assessing the effectiveness of the organization's control environment and overall governance.

The IIA Standards: Standard 2120 - Risk Management: "The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes." COSO Framework: Emphasizes the importance of a positive control environment and its impact on employee behavior and organizational performance.

NEW QUESTION: 237

Which of the following are appropriate responsibilities of the audit committee in relation to the chief audit executive (CAE)?

Approving the internal audit charter.

Approving decisions regarding the appointment and removal of the CAE.

Approving the risk management strategy for the organization.

Making appropriate inquiries of management and the CAE to determine whether there are inappropriate scope and resource limitations.

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

Answer: C (LEAVE A REPLY)

NEW QUESTION: 238

Fraud is most frequently detected by:

- A. Performing periodic reconciliations over cash and other assets.
- B. Performing unannounced audits or reviews of programs or departments.
- C. Following up on tips from employees or citizens.
- D. Following up on analytical review of high-risk areas.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 239

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 communicated upon completion to senior management and the board, but action plans for recommended improvements do not have to be reported.
- B.** The requirements for reporting quality assessment results are the same for external assessments and self-assessments with independent external validation.
- C.** 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.
- D.** 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.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 240

Which of the following situations undermines the independence of the internal audit activity?

- A.** The internal audit activity is responsible for the company's risk management function, and its head manager reports to the chief audit executive.
- B.** A senior member of the internal audit activity once worked in the corporate finance department.
- C.** The organization's CEO reviews the internal audit activity's annual budget per the organization's policies and procedures.
- D.** The internal audit activity often uses management's risk profile to build its own risk profile for annual planning.

Answer: ([SHOW ANSWER](#))

According to IIA standards, particularly Standard 1100 on Independence and Objectivity, using management's risk assessment to build the internal audit's risk profile can potentially undermine the independence of the internal audit activity. This dependence on management's view could bias the audit planning and scope, hence not entirely independent in evaluating management's assertions or risks identified by management alone.

IIA Standard 1100 - Independence and Objectivity.

NEW QUESTION: 241

Which of the following is not an appropriate control related to sales in a manufacturing company?

- A. Goods returned are inspected for damage by the sales department and then entered into inventory.
- B. Credit department approval is required for credit sales transactions.
- C. Customers' orders are recorded promptly.
- D. Goods shipped are matched with valid customer orders.

Answer: A (LEAVE A REPLY)

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NEW QUESTION: 242

Which of the following statements is true regarding how the scope of a consulting engagement should be established?

- A. Any attempts by the engagement client to limit the scope should be considered a scope limitation
- B. The scope should include reviewing the effectiveness of the internal control environment
- C. The engagement client should be able to determine the scope to be applied to the engagement
- D. The internal auditor should establish a scope that does not impair her objectivity

Answer: (SHOW ANSWER)

NEW QUESTION: 243

Regarding assurance and consulting services provided by the internal audit activity which of the following statements is correct?

- A. The nature and scope of a consulting engagement are determined by the internal audit activity based on its risk assessment
- B. The nature and scope of an assurance engagement are subject to agreement with management of the area under review
- C. Both assurance services and consulting services can be focused on controls or performance or both
- D. The assurance engagement process ends with reporting

Answer: C (LEAVE A REPLY)

The correct statement regarding assurance and consulting services provided by the internal audit activity is that both assurance services and consulting services can be

focused on controls or performance or both. This reflects the flexibility and adaptability of internal audit functions to address varying organizational needs, whether in assessing the adequacy and effectiveness of controls, improving operational performance, or both. The IIA's International Standards for the Professional Practice of Internal Auditing on the nature of assurance and consulting services.

NEW QUESTION: 244

According to IIA guidance, which of the following must internal auditors consider to conform with the requirements for due professional care during a consulting engagement?

The cost of the engagement, as it pertains to audit time and expenses in relation to the potential benefits.

The needs and expectation of clients, including the nature, timing, and communication of engagement results.

The application of technology-based audit and other data analysis techniques, where appropriate.

The relative complexity and extent of work needed to achieve the engagement's objectives.

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

Answer: A (LEAVE A REPLY)

NEW QUESTION: 245

An internal auditor is researching the laws and regulations related to a city's grant program.

Which of the following procedures is least relevant to this task?

A. Discussing the matter with the city's chief financial officer, legal counsel, or grant administrators.

B. Reviewing applicable grant agreements.

C. Making inquiries of the audit committee about the nature of the grants.

D. Reviewing prior-year workpapers and asking officials if there have been any changes.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 246

After several years in the engineering department, an engineer was transferred to the internal audit department. One month later, the new auditor was assigned to an assurance engagement for the engineering department. When the auditor's former engineering supervisor suggested a change in the sample selection method, the auditor consulted with the audit supervisor. They determined that the suggested method would not be as representative and that the original selection method should be used.

In this situation, the auditor:

- A. Has subordinated professional judgment, and objectivity is therefore impaired.
- B. Does not have objectivity since the auditor recently transferred from the engineering department.
- C. Maintained an independent mental attitude and is therefore objective.
- D. Does not have independent organizational status since the auditor recently transferred from the engineering department.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 247

Which of the following statements is true regarding occupational fraud?

- A. An employee who intentionally omits negative information in the financial statement disclosures is demonstrating an example of corruption
- B. An employee who diverts the organization's purchases for personal use is demonstrating asset misappropriation
- C. An employee who made an error in estimating losses may have committed fraud even if the error was not intentional
- D. An employee who creates a denial of service in the organization's computer systems is committing asset misappropriation

Answer: B (LEAVE A REPLY)

NEW QUESTION: 248

Which of the following actions by an internal auditor would be the most relevant to determine the effectiveness of controls?

- A. Participate in a fraud risk-assessment session as an in-house facilitator.
- B. Send regular written updates to senior management on new control-related regulations.
- C. Lead a seminar on internal controls and provide numerous examples to the audience.
- D. Conduct a surprise inventory count at the raw materials warehouse.

Answer: D (LEAVE A REPLY)

The most relevant action to determine the effectiveness of controls, particularly in relation to inventory, is conducting a surprise inventory count at the raw materials warehouse. This action allows the auditor to directly assess the operational effectiveness of the inventory control processes and procedures in place, providing tangible evidence of whether controls are functioning as intended to safeguard assets.

IIA guidance on performing direct control testing and evaluating control effectiveness.

NEW QUESTION: 249

Once an organization's risks are identified, what would be the next step to ensure resources are properly allocated to manage those risks?

- A. Risk responses must be selected.
- B. Risks must be assessed.

C. The risk universe must be established.

D. Risk responses must be aligned.

Answer: B (LEAVE A REPLY)

After identifying an organization's risks, the next crucial step is to assess those risks. Risk assessment involves evaluating the identified risks to determine their potential impact and likelihood. This assessment helps prioritize the risks, enabling the organization to allocate resources effectively to manage the most significant risks. Without assessing the risks, the organization would lack the necessary information to make informed decisions on how to respond to and mitigate these risks.

The Institute of Internal Auditors (IIA) Standards and Practice Advisories.

COSO Enterprise Risk Management (ERM) Framework.

"Internal Auditing: Assurance & Advisory Services" by IIA, Chapter on Risk Assessment.

NEW QUESTION: 250

Why is a code of ethics for the internal audit profession necessary?

A. It guides internal auditors in their service to others.

B. It provides auditors with protection from lawsuits.

C. It requires auditors to exhibit loyalty to their organizations.

D. It ensures that all members of the profession possess the same level of competence.

Answer: (SHOW ANSWER)

NEW QUESTION: 251

Which of the following should play a leading role in overseeing the ethical atmosphere of an organization?

A. Internal audit activity

B. Operating management

C. Senior management

D. Board of directors

Answer: D (LEAVE A REPLY)

The board of directors should play a leading role in overseeing the ethical atmosphere of an organization. As the highest governance body, the board has the ultimate responsibility for setting the organization's tone at the top, including its ethical culture and practices. This responsibility includes overseeing senior management to ensure that ethical policies and practices are developed, communicated, and enforced throughout the organization.

IIA guidance on governance and ethical oversight.

NEW QUESTION: 252

According to the Standards, which of the following statements best describes the required content of the chief audit executive's (CAE) report to senior management and the board on the internal audit activity (IAA)?

- A. The CAE must report on significant risk exposures, control issues, and governance issues.
- B. The CAE must report on policies, procedures, and best practices of the IAA.
- C. The CAE must report on quality assurance techniques, statistical analysis methods, and other analytical processes used.
- D. The CAE must report on auditors' continuing education activities, staffing changes, and any outsourcing to external parties.

Answer: A (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 253

A fraud investigation was completed by management, and a proven fraud was communicated to relevant authorities. According to IIA 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: (SHOW ANSWER)

According to IIA guidance, the most appropriate role for the internal audit activity after a fraud investigation is to conduct lessons learned sessions to ascertain how the fraud occurred and which controls failed. This approach helps the organization to understand the weaknesses in their controls and processes, thereby facilitating improvements to prevent future occurrences.

IIA Practice Advisories on fraud and the role of internal auditing post-investigation.

NEW QUESTION: 254

According to the COSO internal control framework, which of the following best describes the use of continuous auditing programs by the internal audit activity?

- A. Risk assessment.
- B. Control environment.
- C. Control activities.
- D. Monitoring.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 255

The audit committee is concerned that the small size of the internal audit activity (IAA) makes it impractical to achieve full conformance with the Standards. To address this concern, which of the following actions is most appropriate for the CAE to take?

- A.** The CAE should agree with the audit committee and implement only those standards appropriate to the size of the IAA.
- B.** The CAE should request the audit committee to review the Standards to identify specifically which are creating the greatest concern.
- C.** The CAE should seek sufficient funding to increase audit resources to meet the minimum requirements of the Standards.
- D.** The CAE should explain that conformance with the Standards is essential and not dependent upon the size of the IAA.

Answer: D (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 256

For a bank handling large amounts of cash, which of the following types of control would be the most effective to use?

- A.** Detective controls.
- B.** Corrective controls.
- C.** Preventive controls.
- D.** Directive controls.

Answer: (SHOW ANSWER)

Section: Volume D

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NEW QUESTION: 257

According to IIA guidance, which of the following actions is a chief audit executive required to take with regard to reporting the results of the quality assurance and improvement program?

- A.** Report external assessments upon completion of such assessments
- B.** Report external assessments at least annually
- C.** Report ongoing monitoring quarterly
- D.** Report post-engagement reviews at least once every five years

Answer: (SHOW ANSWER)

According to IIA guidance, the chief audit executive is required to report the results of the quality assurance and improvement program, including external assessments, at least annually. This ensures that the board and senior management are kept informed about the internal audit activity's conformance with the Standards and other aspects of audit quality. IIA's International Standards for the Professional Practice of Internal Auditing on Quality Assurance and Improvement.

NEW QUESTION: 258

Management should be included in the development of the audit plan in order to:

- A. Provide assurance that past audit recommendations have been properly implemented.
- B. Select the audit tests that will be used for each engagement.
- C. Verify that the highest risks are included in the risk-based audit plan.
- D. Guarantee access to the organization's sites and records for audit work.

Answer: C (LEAVE A REPLY)

Section: Volume B

NEW QUESTION: 259

A charitable organization provides substantial grants for important medical research. Assuming marginal controls are in place, which of the following possible frauds or misuses of organization assets should be considered the area of greatest risk?

- A. Grants are made to organizations associated with senior executives.
- B. Senior executives are using company travel and entertainment funds for activities that might be considered questionable.
- C. A payroll clerk has added a fictitious employee.
- D. Purchases of office supplies are made from fictitious vendors.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 260

In which of the following scenarios would it be appropriate for the chief audit executive (CAE) to report that the internal audit activity conforms with the Standards?

- A. It A new internal audit activity was formed four years ago. An external assessment was never performed, but successive internal assessments were performed and support the conclusion that the internal audit activity conforms with the Standards
- B. An internal self-assessment completed yesterday found that the internal audit activity did not conform with the Standards when carrying out its work. However, the preceding independent external assessment supports the conclusion that the internal audit activity conforms with the Standards.
- C. To reduce costs, the CAE excluded the use of external assessors from the internal audit activity's quality assurance and improvement program for the past seven years.

However, the CAE concluded that the internal audit activity conforms with the Standards because all internal assessments over the period have supported this conclusion.

D. The results of the last external assessment of the internal audit activity, performed a little over five years ago, indicated that the internal audit activity conforms with the Standards. The most recent internal assessment performed within the past year also indicates conformance.

Answer: D (LEAVE A REPLY)

According to the IIA's standards, a chief audit executive (CAE) can report that the internal audit activity conforms with the Standards if external assessments are performed at least once every five years and supported by ongoing internal assessments. In this scenario, the most recent external and internal assessments confirm conformance, which allows the CAE to report conformance with the Standards. References: The IIA's International Standards for the Professional Practice of Internal Auditing, particularly the standards related to quality assurance and improvement programs.

NEW QUESTION: 261

Which of the following situations would cause the greatest concern regarding impairment of internal audit objectivity?

A. The external auditor reviewed the audit clients proposed procedures and standards of control and offered suggested improvements at the client's request.

B. The internal auditor performed nonaudit work for the audit client which was communicated to senior management and the board before the engagement was performed and restated in the audit report

C. internal auditors accepted limited access to the audit client's systems and records in accordance with the scope of the engagement

D. The internal auditor used his in-depth knowledge of systems development to assist the audit client in designing a new operational system with robust controls.

Answer: D (LEAVE A REPLY)

The situation that would cause the greatest concern regarding impairment of internal audit objectivity is when the internal auditor uses his in-depth knowledge of systems development to assist the audit client in designing a new operational system with robust controls. By participating in the design and implementation of the system, the internal auditor becomes part of the process, which can compromise their ability to independently evaluate the system in future audits. This involvement creates a conflict of interest and impairs the auditor's objectivity.

The IIA Standards: Standard 1120 - Individual Objectivity: "Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest." IIA Practice Guide:

"Independence and Objectivity": Discusses the risks associated with internal auditors performing operational roles that can impair their independence and objectivity.

NEW QUESTION: 262

The first stage in the development of a crisis management program is to:

- A. Create a crisis management team.
- B. Practice the response to a crisis.
- C. Formulate contingency plans.
- D. Conduct a risk analysis.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 263

Which of the following is a responsibility of the internal audit activity as it relates to risk and risk management?

- A. Evaluating and suggesting improvements to the risk management process.
- B. Establishing the organization's risk appetite.
- C. Determining whether the risk attitude is aligned with shareholder interests.
- D. Ensuring an adequate risk management system is in place.

Answer: A (LEAVE A REPLY)

A responsibility of the internal audit activity as it relates to risk and risk management is evaluating and suggesting improvements to the risk management process. This role includes assessing the adequacy and effectiveness of the process in identifying, analyzing, and managing risks, as well as recommending improvements based on audit findings. IIA Standards for the Professional Practice of Internal Auditing related to risk management.

NEW QUESTION: 264

According to The MA Code of Ethics, which of the following is one of the rules of conduct for objectivity?

- A. Internal auditors shall respect and contribute to legitimate and ethical objectives of the organization.
- B. Internal auditors shall not accept anything that may impair or be presumed to impair their professional judgment.
- C. Internal auditors shall continually improve their proficiency and effectiveness and quality of their services.
- D. Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties.

Answer: (SHOW ANSWER)

NEW QUESTION: 265

Which of the following represents the most useful function of inventory turnover analysis?

- A. Determining the best supplier of raw materials based on cost comparison.
- B. Creating new staffing positions for inventory support.
- C. Developing more efficient methods for manufacturing finished products.
- D. Identifying excess inventory, including obsolete inventory.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 266

In its five years of existence, an internal audit activity conducted a single internal assessment of its quality assurance and improvement program (QAIP). The results of that assessment showed that the internal audit activity did not conform with the Standards. Prior to this, an external assessment of the internal audit activity's QAIP was conducted, which reported that the internal audit activity was in conformance with the Standards. Considering the two assessments, what would be the internal audit activity's current state of conformance with the Standards?

- A. Conformance with the Standards.
- B. Nonconformance with the Standards
- C. Unable to determine conformance with the Standards.
- D. Partial conformance with the Standards

Answer: (SHOW ANSWER)

The current state of conformance with the Standards for the internal audit activity would be considered as

"Nonconformance with the Standards." This assessment is based on the most recent internal assessment, which showed nonconformance. According to IIA standards, the results of the latest quality assurance review are critical in determining conformance, and any finding of nonconformance indicates that the internal audit activity currently does not meet the Standards, despite previous external assessments to the contrary. References: IIA Standard 1300: Quality Assurance and Improvement Program and related interpretation guidelines.

NEW QUESTION: 267

Considering the concepts of organizationwide risk management and the system of internal controls, the internal audit activity as a whole can be considered which of the following types of control?

- A. Management-oversight control.
- B. Process-level control.
- C. Transaction-level control.
- D. Governance control.

Answer: (SHOW ANSWER)

NEW QUESTION: 268

Which of the following would be the most effective fraud prevention control?

- A. New hire training to explain fraud and employee misconduct.
- B. Installation of a video surveillance system in a warehouse prone to inventory loss.
- C. Daily report that identifies unsuccessful system log-in attempts
- D. Email alert sent to management for checks issued over \$100,000.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 269

Which of the following relates to the concept of due professional care?

- A. An auditor attempts to obtain information needed to complete an assurance engagement but is denied access.
- B. The appointment of the chief audit executive is ratified by the board.
- C. The internal audit resource plan is only approved by the chief financial officer.
- D. An auditor demonstrates a good understanding of the steps involved in carrying out a consulting engagement.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 270

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

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 271

During fieldwork, an internal auditor located a significant internal control issue. Without identifying the origins of the issue, the auditor concluded the engagement and included the issue in the final audit report. To enhance audit quality, which of the following skills should the internal auditor improve?

- A. Business acumen.
- B. Critical thinking.
- C. Communication.
- D. Audit report writing.

Answer: B ([LEAVE A REPLY](#))

The internal auditor's failure to identify the origins of a significant control issue before concluding the engagement suggests a lack of critical thinking skills. Critical thinking involves analyzing and evaluating an issue thoroughly to understand its root causes before forming a judgment. Improving this skill would enhance the auditor's ability to conduct deeper analyses and provide more valuable insights in audit reports.

Institute of Internal Auditors (IIA) - Competency Framework for Internal Auditors

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NEW QUESTION: 272

Which of the following statements about risk assessment is true?

- A. Risk assessment focuses on the quantitative evaluation of exposures.
- B. Risk assessment determines the organization's tolerance for exposure.
- C. Risk assessment is the amount of inherent risk in a separately identifiable business entity.
- D. Risk assessment evaluates risk both on an inherent and residual basis.

Answer: (SHOW ANSWER)

NEW QUESTION: 273

An internal auditor in a newly established internal audit activity identifies many control weaknesses and raises a number of high-priority recommendations in her first few audit engagements. The internal auditor is concerned that there seems to be a poor understanding by management of risk and control. Which of the following is the most likely reason for this?

- A. Poor performance by individual operational managers in the areas audited.
- B. Unrealistic expectations by the internal audit activity on the quality of risk management and control.
- C. A lack of an effective organizational framework for risk management and control.
- D. A failure by the internal audit activity to identify and manage the organization's risks.

Answer: C (LEAVE A REPLY)

The identification of multiple control weaknesses and high-priority recommendations often indicates a systemic issue with the organizational framework for risk management. A strong organizational framework provides guidance on risk management and controls, aligning with IIA guidelines on the importance of an integrated approach to risk management.

NEW QUESTION: 274

A government agency's policy states that board members' travel and hospitality expenses must be audited annually. Which of following people or groups is most appropriate to perform this audit?

- A. The government's independent auditor.
- B. The internal audit activity.

- C. The external auditors from an accounting firm.
- D. The agency's chief compliance officer.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 275

Which type of documentary evidence gathered by an organization's internal auditors has the highest level of reliability?

- A. Inventory test counts.
- B. Bank statements.
- C. Remittance advices.
- D. Written policy statements.

Answer: (SHOW ANSWER)

Section: Volume D

NEW QUESTION: 276

Auditors 1,2,and 3 work out of various offices. Each must be assigned to one,and only one,of three audit locations (A,B,or C). The cost of sending each auditor to each location is listed below: Audit Locations

Auditor 1 A B

Auditor 2 \$200 \$300 \$400

Auditor 3 \$400 \$300 \$600

Auditor 4 \$200 \$200 \$500

The minimum cost with which this assignment can be accomplished is:

- A. \$1,000
- B. \$900
- C. \$800
- D. \$1,100

Answer: B (LEAVE A REPLY)

NEW QUESTION: 277

Which of the following should be considered in developing a risk and control model for use in an engagement?

- A. The risk and control model should be strictly adhered to in performing the engagement.
- B. The risk and control model should be tailored to the organization that will be the subject of the engagement.
- C. The risk and control model should be globally accepted by the profession.
- D. The risk and control model should be developed individually by the auditor for use on individual audit projects within the planned engagement.

Answer: (SHOW ANSWER)

NEW QUESTION: 278

In a manufacturing company, which department would be the internal audit activity's most reliable source of information on the controls over minimizing defective goods?

- A. Manufacturing.
- B. Quality control.
- C. Research and development.
- D. Inventory management.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 279

When issuing his department's performance report, a sales director in an insurance company knowingly fails to correct the reserves for unearned income that resulted from cancellations of policy subscriptions. This could be considered which of the following types of fraud?

- A. Asset misappropriation
- B. Skimming
- C. Disbursement fraud
- D. Information misrepresentation

Answer: D (LEAVE A REPLY)

Information misrepresentation involves the intentional misstatement or omission of important information in the financial reports to deceive users of those reports. In this scenario, the sales director's failure to correct the reserves for unearned income in the department's performance report, despite knowing it should be adjusted for cancellations, is a clear example of information misrepresentation. This act could lead to misleading stakeholders about the company's financial status, which fits the definition of information misrepresentation fraud.

IIA guidance on types of fraud and their characteristics

NEW QUESTION: 280

A retail sales company has discontinued a product that normally sold for \$100. During the first month of a sale of the product, a 20 percent discount was given. Later that sale price was reduced by an additional 40 percent.

What was the overall discount from the original selling price?

- A. 60 percent.
- B. 52 percent.
- C. 48 percent.
- D. 30 percent.

Answer: B (LEAVE A REPLY)

Section: Volume C

NEW QUESTION: 281

A risk assessment showed that the cost of addressing a particular risk in the organization's human resources department is greater than the perceived benefit. Which risk response approach should the organization take in this scenario?

- A. Reduce the risk.
- B. Transfer the risk.
- C. Accept the risk.
- D. Share the risk.

Answer: (SHOW ANSWER)

When a risk assessment shows that the cost of addressing a particular risk is greater than the perceived benefit, the appropriate risk response approach is to accept the risk. Risk acceptance means acknowledging that the risk exists but deciding not to take any action to mitigate it, usually because the cost of mitigation is higher than the potential impact. This approach is a rational decision when the risk is deemed to have a low likelihood or impact, or when other controls are considered sufficient.

References:

* The IIA Standards: Standard 2120 - Risk Management: "The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes."

* COSO ERM Framework: Discusses risk response options including risk acceptance as a viable strategy when the cost-benefit analysis justifies it.

NEW QUESTION: 282

While reviewing first quarter sales transactions, an internal auditor discovered that 10 invoices for a new customer had not been posted into the accounts receivable subsidiary ledger. Those 10 invoices were listed in an error report automatically generated by the sales processing system. The system had rejected the invoices because the customer's account number was not found in the customer master file. In this scenario, which of the following controls was lacking?

- A. Preventive control.
- B. Corrective control.
- C. Detective control.
- D. Directive control.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 283

Which of the following situations is most likely to prompt the internal audit activity to disclose its nonconformance with the Standards?

- A. The internal audit activity committed to carrying out an audit of documentation on investment hedging, and a hedging expert was contracted to assist with the engagement.
- B. The annual internal audit plan includes performance audits of main business processes, but reviews of high-risk development projects were not considered.

C. A periodic quality self-assessment of the internal audit activity identified a number of improvement areas with regard to key performance indicators.

D. One of the organization's senior internal auditors owns a side business, though to date, no sales have been made to this business.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 284

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. 3 and 4.

C. 2 and 3.

D. 1 and 3.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 285

An internal auditor extended the scope of testing for a disbursements engagement following a fraud risk assessment. Despite the investment of additional audit resources, no significant issues were found. Unfortunately, a major payment fraud was discovered several months later. According to IIA guidance, which of the following statements is true regarding the internal auditor's application of due professional care?

A. Due professional care was not applied because the extended scope resulted in no issues being identified, while fraud actually existed.

B. Due professional care was applied as the internal auditor modified the scope based on reasonable judgment, despite the additional cost of resources.

C. Due professional care was applied as the cost of audit resources should not be a determining factor in the degree of testing undertaken.

D. Due professional care was not applied because no additional work should have been performed unless there was actual evidence of fraud.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 286

Which of the following would be considered a primary control to reduce the risk associated with setting up duplicate vendors?

A. Receipt of a signed and approved vendor setup form.

B. Segregation of duties between setting up vendors and making vendor payments.

C. System validation and edit checks on vendor identification number.

D. A vendor setup policy and procedure.

Answer: (SHOW ANSWER)

System validations and edit checks on vendor identification numbers are primary controls that effectively reduce the risk of setting up duplicate vendors in the system. These controls ensure that each vendor's information is unique and verified against existing records before a new vendor is entered into the system, thereby preventing duplication. References: Institute of Internal Auditors (IIA) - Risk Control Matrices and Internal Control Frameworks

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NEW QUESTION: 287

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, previously employed in the quality assurance operations area, performed a consulting engagement for the operations manager.
- 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 assessed the effectiveness of controls over payroll software, which he had helped implement with a previous employer.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 288

The internal audit activity is responsible for which of the following actions related to an organization's internal controls?

- A. Mitigating risks affecting achievement of organizational objectives.
- B. Enabling opportunities affecting achievement of organizational objectives.
- C. Analyzing and advising regarding costs versus benefits of control activities,
- D. Attesting to fairness of financial statements.

Answer: (SHOW ANSWER)

The primary role of the internal audit activity in relation to an organization's internal controls is to provide an independent evaluation of risk management processes and

internal control systems. This involves analyzing and advising on the costs versus benefits of control activities, ensuring that the controls are not only effective but also efficient in mitigating risks. References: IIA Performance Standard 2130 - Control

NEW QUESTION: 289

Which of the following statements is true regarding the disclosure of results of the quality assurance and improvement program?

- A.** If nonconformance affects its ability to fulfill its professional responsibilities or stakeholder expectations, the internal audit activity should disclose nonconformance as well as its impact.
- B.** If the results of both internal and external assessments support conformance with the Standards, the internal audit activity must communicate this to the board and senior management in writing.
- C.** If it has been in existence fewer than five years and has no documented external assessment, the internal audit activity may not indicate that it is operating in conformance with the Standards.
- D.** If an external assessment reflects an overall conclusion of nonconformance, the internal audit activity may continue to communicate that it conforms with the Standards if it discloses a remediation plan, including timeline with subsequent validation.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 290

During an assurance engagement an internal auditor discovered that risk limits risk limit were set for a new market expansion project Management of the area under review was eager to comply and submitted a potential risk limit value for the auditor's review and approval. Which of the following would be an appropriate course of action for the auditor to take?

- A.** Develop risk limit calculation criteria and ask management of the area under review to resubmit the values.
- B.** Provide advice if needed and ask management of the area under review to forward to senior management and the board for approval
- C.** Avoid providing any advice or review until the audit report is issued
- D.** Review the submission and if no further remarks exist approve the risk limits

Answer: D (LEAVE A REPLY)

NEW QUESTION: 291

An internal auditor would most likely judge an error in an account balance to be material if the error involves:

- A.** A large percentage of net income.
- B.** An unusual transaction for the company.
- C.** A data input function.

D. An unverified routine transaction.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 292

Which of the following describes an ongoing monitoring activity that could be performed as part of an internal assessment for a quality assurance and improvement program (QAIP)?

A. Planning and supervising engagements

B. Evaluating the quality of supervision

C. Identifying opportunities for improvement in internal audit's processes and procedures

D. Determining if the objectives of QAIP are current

Answer: A (LEAVE A REPLY)

Ongoing monitoring activities are part of the internal assessments within a quality assurance and improvement program (QAIP). Planning and supervising engagements are integral components of ongoing monitoring.

These activities ensure that internal audit engagements are properly planned, executed, and supervised, adhering to established standards and procedures. They help in continuously assessing the performance and effectiveness of the internal audit function and ensuring compliance with professional standards.

References:

* IIA Standard 1300: Quality Assurance and Improvement Program

* IIA Practice Guide: Quality Assurance and Improvement Program

NEW QUESTION: 293

An internal auditor is testing, on a sample basis, whether invoices paid between January 1 and December 31 are supported by appropriately approved purchase orders. Over 25,000 invoices were paid during the fiscal year, which runs from the first of April to the end of March. The auditor sets the acceptable risk of assessing control risk too low at 5% and the tolerable deviation rate at 5%. The internal auditor consults the previous audit and sets the expected population deviation rate at 1%. Sample size (77) is selected from a table and rounded up to 80. No sample deviations were found. The upper deviation limit was 3.7%. Which of the following statements represents a valid conclusion regarding this information?

A. I am 95% confident that the actual population deviation rate is 3.7%. Since this is less than the tolerable deviation rate, quantitative attribute testing results indicate that the control is effective.

B. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%. The quantitative attribute testing results indicate that the control is not effective.

C. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%. Results indicated that the sample size was too small, as no sample deviations were found.

D. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%. The quantitative attribute testing results indicate that the control is effective.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 294

Which of the following statements is not true about red flags?

- A. There is a scarcity of established literature on red flags.
- B. It can be challenging to quantify red flags.
- C. Red flags do not necessarily mean that fraud exists.
- D. Red flags can point auditors to intentional wrongdoing, errors and omissions, inefficiency, and conflicts of interest.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 295

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: (SHOW ANSWER)

Section: Volume E

NEW QUESTION: 296

According to IIA guidance, the internal audit activity must be free from interference in which of the following areas in order to maintain organizational independence?

- A. Monitoring resources.
- B. Compensating the chief audit executive.
- C. Determining scope.
- D. Allocating internal costs.

Answer: C (LEAVE A REPLY)

To maintain organizational independence, the internal audit activity must be free from interference in determining the scope of their work. This independence is crucial for ensuring that the audit process is objective and unbiased, allowing auditors to assess areas they deem necessary without external pressures or limitations. This autonomy helps in providing an honest and accurate evaluation of the organization's controls, risk management, and governance processes.

The Institute of Internal Auditors (IIA) Standards, specifically Standard 1100 - Independence and Objectivity.

IIA's International Professional Practices Framework (IPPF).

"Internal Auditing: Assurance & Advisory Services" by IIA, Chapter on Independence and Objectivity.

NEW QUESTION: 297

A whistleblower reveals to the chief audit executive (CAE) detailed allegations of potential fraud at the senior management level. Although the CAE has some experience in the area, she chooses to retain an external fraud expert to conduct the investigation. When asked by the director of finance to defend the expenditure, which of the following statements represents the CAE's best response?

- A.** The CAE refers to the Standards and explains that to protect her independence, she needs to remain isolated from the investigation.
- B.** The CAE refers to the Standards and explains that the internal audit activity must obtain competent assistance if needed.
- C.** The CAE refers to the Standards and explains that to protect her objectivity, she needs to remain isolated from the investigation.
- D.** The CAE describes the specifics of the allegation to underscore the importance of the situation and the need for expert investigation

Answer: B (LEAVE A REPLY)

According to the IIA Standards, the chief audit executive (CAE) must ensure that internal audit activities are performed with competence and due professional care. If the internal audit team lacks the necessary knowledge or skills to perform all or part of the work, the CAE must obtain competent advice and assistance.

Thus, the CAE's best response to defend the expenditure for an external fraud expert is to refer to the Standards, explaining that the internal audit activity must obtain competent assistance if needed to ensure the investigation is conducted effectively and professionally. References: IIA Standard 1210: Proficiency

NEW QUESTION: 298

According to MA guidance, which of the following best describes how often the chief audit executive should review the quality assurance and improvement program of the internal audit activity?

- A.** Whenever the business objectives of the organization change
- B.** Just prior to an external assessment of the internal audit activity
- C.** At the completion of each engagement.
- D.** Progressively on a day-to-day basis

Answer: D (LEAVE A REPLY)

According to IIA guidance, the chief audit executive should review the quality assurance and improvement program of the internal audit activity progressively on a day-to-day basis. This continual review ensures that the internal audit activity remains effective and aligned with the organization's objectives and adheres to professional standards, thereby maintaining and enhancing the value provided by the audit function.

References: IIA standards related to the quality assurance and improvement program, which advocate for ongoing monitoring to ensure the effectiveness of the internal audit activity.

NEW QUESTION: 299

Which of the following most accurately describes the role of the board when it comes to organizational governance?

- A. Responsibility for outcome of the process.
- B. Responsibility to be involved in management of the organization.
- C. Responsibility to determine who is accountable for outcomes.
- D. Responsibility to identify risks in the organization's business environment

Answer: A (LEAVE A REPLY)

The role of the board in organizational governance most accurately involves the responsibility for the outcome of the process. This encompasses overseeing the strategic direction of the organization, ensuring that corporate objectives are met, and that the management's activities align with the overall strategic vision and risk appetite of the organization. The board's oversight role is crucial in ensuring effective governance and accountability throughout the organization.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 300

One of an organization's quality objectives is to reduce the amount of rework needed in the production cycle. Which of the following controls would be the least effective in achieving this objective?

- A. Employees are rewarded for suggestions that lead to quality improvements.
- B. Daily reconciliations are performed between finished goods and the number of rejects.
- C. Quality inspectors are assigned to identify any defects in the finished product.
- D. Machinery is routinely maintained to avoid production malfunctions.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 301

What is the additional advantage of facilitated workshops, in comparison with structured interviews, used when testing the effectiveness of entity-level controls?

- A. Internal auditors do not need other sources of information, as the data gathered during facilitated workshops is sufficient.
- B. Facilitated workshops create a synergy of discussion that can bring multiple perspectives to the same issue.
- C. The testimonial evidence obtained during facilitated workshops is generally considered more reliable.

D. During facilitated workshops, people more openly say things to internal auditors than during private interviews.

Answer: (SHOW ANSWER)

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NEW QUESTION: 302

An internal auditor in a busy internal audit activity reviews her continuing professional development records toward the end of the year and is concerned to find she has undertaken limited training and formal professional development. Which of the following actions is the most appropriate for her to take?

- A. Remind the chief audit executive (CAE) that he is responsible for her continuing professional development and needs to address the issue
- B. Contact her professional organization and explain that she does not need formal professional development, as she is being developed sufficiently through undertaking audit engagements.
- C. Accept that she is unlikely to meet continuing professional development requirements but look to attend training courses at the next available time.
- D. Accept that she is responsible for her own continuing professional development, develop a professional plan, and discuss it with the CAE.

Answer: D (LEAVE A REPLY)

The most appropriate action for an internal auditor who realizes that she has undertaken limited training and professional development is to accept responsibility for her own continuing professional development, develop a professional plan, and discuss it with the CAE. This proactive approach ensures that she meets the ongoing professional development requirements, aligns her training needs with the objectives of the internal audit activity, and maintains the necessary competencies to perform effectively in her role. Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 303

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

- A. Human resources personnel add employees and enter employee bank information. Payroll personnel process hours, and paychecks are automatically

B. Human resources personnel add employees, payroll personnel process hours, and human resources personnel deliver paychecks to employees.

C. Human resources personnel add employees, review and submit payroll hours to the payroll department for processing, and deliver paychecks to employees.

D. Human resources personnel add employees, and payroll personnel process hours and enter employee bank account numbers. Paychecks are automatically deposited in the employee's bank account.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 304

Which of the following best demonstrates internal auditors performing their work with proficiency?

A. Internal auditors meet with operational management at each phase of the audit process.

B. Internal auditors adhere to The IIA's Code of Ethics.

C. Internal auditors work collaboratively with their engagement team.

D. Internal auditors complete a program of continuing professional development.

Answer: D (LEAVE A REPLY)

Demonstrating proficiency as an internal auditor is best reflected through continuous professional development. This involves adhering to The IIA's requirement for ongoing education to maintain proficiency and relevancy in the field of internal auditing. Continuous professional development ensures that auditors are up-to-date with the evolving audit practices, standards, and relevant regulatory requirements, thus enhancing their capability to perform effectively.

The IIA's Code of Ethics and Continuing Professional Development standards.

NEW QUESTION: 305

Which of the following definitions best describes enterprise risk management?

A. Enterprise risk management is broader than internal control and focuses on risk identification and management, and assurance that business objectives will be met.

B. Enterprise risk management is narrower than internal control and focuses on risk mitigation strategies across the enterprise.

C. Enterprise risk management is broader than governance and internal control, and focuses on activities designed to ensure that risks are contained at a level acceptable to the enterprise.

D. Enterprise risk management is narrower than internal control and focuses on managing the risk of loss resulting from external events.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 306

Which of the following statements is true regarding control activities?

A. Control activities are carried out by first-line and second-line functions to mitigate risks.

- B. Control activities are implemented by internal auditors to mitigate risks to an acceptable level.
- C. Control activities provide the foundation for the organization to establish its risk appetite.
- D. Control activities are a precondition to setting risk tolerance levels.

Answer: A (LEAVE A REPLY)

Control activities are indeed carried out by first-line (operational management) and second-line (risk management and compliance functions) to mitigate risks. These activities are key components of an organization's internal control system, designed to address and manage risks identified across the organization. Internal auditors do not implement control activities; instead, they assess the adequacy and effectiveness of these controls. References: COSO Framework on Internal Control and IIA guidance on control activities.

NEW QUESTION: 307

Which of the following fraud prevention measures is most likely to trigger undesired adverse behavior if improperly designed?

- A. Ethics training programs
- B. Disclosure of outside business activities
- C. Compensation programs
- D. Exit interviews

Answer: C (LEAVE A REPLY)

NEW QUESTION: 308

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

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

Answer: D (LEAVE A REPLY)

NEW QUESTION: 309

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

Answer: D (LEAVE A REPLY)

NEW QUESTION: 310

Internal auditors can benefit from a strong relationship with the external auditors because external auditors can:

- A. Increase the effectiveness of internal control sampling techniques.
- B. Provide internal auditors with an independent and knowledgeable viewpoint.
- C. Concur with the internal auditors' reports and thus improve the quality of assurance provided to management.
- D. Assist the internal auditor by providing information obtained from similar audits with other clients.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 311

Which of the following would be outside the scope of acquiring and developing human resources for an internal audit department?

- A. Writing job descriptions for audit staff, audit managers, and other auditing positions.
- B. Evaluating auditors' compliance with standards and level of audit effectiveness.
- C. Requiring audit staff to participate in continuing education activities.
- D. Conducting individual counseling sessions regarding professional development and performance.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 312

An engagement supervisor noted that an internal auditor's personal relationship with a process owner resulted in the auditor providing a favorable and partial assessment during an audit within that process owner's area.

According to MA guidance, which of the following should be used to manage this impairment?

- A. An internal audit charter.
- B. An employee disciplinary policy.
- C. A functional audit committee.
- D. A functional reporting placement.

Answer: C (LEAVE A REPLY)

To manage the impairment caused by an internal auditor's personal relationship affecting audit impartiality, a functional audit committee should be utilized. The audit committee is responsible for ensuring the independence and objectivity of the internal audit function. This committee can take actions such as reassigning the audit task, reviewing the affected audit work, or instituting additional oversight for audits in that area. References: The IIA's Standards on objectivity and conflicts of interest (specifically standards relating to managing impairments to independence and objectivity).

NEW QUESTION: 313

Which of the following types of fraud tests would be most effective if an internal auditor was looking for possible fictitious vendors?

- A. Checking for invoice amounts that do not match that of the purchase order.
- B. Searching for identical invoice numbers and payment amounts.
- C. Running checks to uncover post office box addresses matching employee addresses.
- D. Comparing prices across vendors to see whether one vendor is unreasonably high.

Answer: C (LEAVE A REPLY)

The most effective type of fraud test for looking for possible fictitious vendors would be running checks to uncover post office box addresses that match employee addresses. This test directly targets a common tactic used in vendor fraud schemes, where employees might set up fictitious vendor accounts and direct payments to themselves via P.O. boxes. References: IIA resources on auditing for fraud, which often discuss various methods for detecting fictitious vendors, including address comparisons.

NEW QUESTION: 314

According to IIA guidance, which of the following is the most accurate statement regarding the internal audit charter?

- A. The IIA's Code of Ethics must exist outside of the charter to maintain independence.
- B. The charter must be approved by both senior management and the board.

C. The nature of consulting services does not need to be defined in the internal audit charter.

D. The charter provides a framework for performing a broad range of value-added audit services.

Answer: B (LEAVE A REPLY)

According to the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA), the internal audit charter must be formally approved by senior management and the board.

This requirement ensures that the internal audit activity has the appropriate authority, support, and independence to carry out its responsibilities effectively. The charter defines the purpose, authority, and responsibility of the internal audit activity, providing a clear framework for its operations and ensuring alignment with the organization's objectives and governance structures.

The IIA Standards: Standard 1000 - Purpose, Authority, and Responsibility: "The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval."

NEW QUESTION: 315

The internal auditor obtained large volumes of transaction history data for accounts on which he suspected that some fraudulent transactions occurred. Which of the following actions best demonstrates due professional care by the internal auditor?

A. The internal auditor carefully scrutinized the data by manually reviewing each transaction to ensure that all irregularities were identified.

B. The internal auditor employed the use of data analytics tools to sort, analyze, and detect anomalies in the data

C. The internal auditor started the data analysis process by selecting a random sample of transactions on which to perform further tests.

D. The internal auditor requested that the branch supervisor assist in identifying fraudulent transactions, as he was most familiar with the accounts being audited.

Answer: B (LEAVE A REPLY)

Employing the use of data analytics tools to sort, analyze, and detect anomalies in the data best demonstrates due professional care by the internal auditor. This approach allows for efficient and effective review of large volumes of data, enabling the auditor to identify patterns and irregularities that may indicate fraudulent transactions, while also adhering to the principles of competence and due care outlined in the IIA's standards.

References: IIA Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 316

Regarding assurance and consulting services provided by the internal audit activity which of the following statements is correct?

- A. Both assurance services and consulting services can be focused on controls or performance or both
- B. The nature and scope of an assurance engagement are subject to agreement with management of the area under review
- C. The nature and scope of a consulting engagement are determined by the internal audit activity based on its risk assessment
- D. The assurance engagement process ends with reporting

Answer: (SHOW ANSWER)

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NEW QUESTION: 317

In assessing the independence of the internal audit activity, a member of a peer review team should consider all of the following factors except:

- A. The scope and depth of engagement objectives for the audit engagements included in the review.
- B. The criteria of education and experience considered necessary when filling vacant positions on the audit staff.
- C. The degree to which auditors assume operating responsibilities.
- D. Access to and frequency of communications with the board of directors or its audit committee.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 318

Which of the following procedures will best help an internal auditor assess operating effectiveness of fraud prevention and detection controls?

- A. Benchmarking best practices
- B. Testing,
- C. Mapping,
- D. Interviewing

Answer: (SHOW ANSWER)

Testing is the most effective procedure for assessing the operating effectiveness of fraud prevention and detection controls. By testing specific controls designed to prevent and detect fraud, the auditor can evaluate whether the controls are functioning as intended and whether they are being applied consistently. This approach provides direct evidence about the effectiveness of the controls in the operational environment.

References: IIA guidance on assessing controls; Auditing standards on testing control effectiveness.

NEW QUESTION: 319

Which of the following decisions made during the testing phase of a compliance audit requires the most judgment by an internal auditor?

- A.** Which sampling methodology to select for testing.
- B.** Which fields to examine on each invoice.
- C.** Whether an individual expenditure is allowable.
- D.** What level of noncompliance is acceptable.

Answer: D (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 320

A third-party provider's questionable labor practices have exposed the organization to reputational risks and regulatory risks. Which of the organization's risk management practices was most likely ineffective?

- A.** The organization ensured that the third-party vendor provided the best pricing for the requested services.
- B.** The organization conducted quality control reviews of provided services to ensure industry standards were met.
- C.** The organization performed a due diligence review of all vendors during the bid review process.
- D.** The organization planned to issue a resolution concerning the third-party provider's labor practices.

Answer: C (LEAVE A REPLY)

The organization's risk management practices that were most likely ineffective in the scenario described involve the due diligence review of vendors during the bid review process. Effective due diligence would typically include an assessment of all potential risks associated with a vendor, including reputational and regulatory risks stemming from labor practices. Failure in this area suggests that the due diligence process was not thorough enough to identify these risks.

Risk management frameworks and guidelines that emphasize the importance of comprehensive vendor due diligence as part of an organization's risk management practices.

NEW QUESTION: 321

According to the Standards, which of the following must an internal auditor take into consideration when performing an assurance engagement of treasury operations?

- I. The audit committee has requested assurance of the treasury department's compliance with a new policy on the use of financial instruments.
- II. Treasury management has not instituted any risk management policies.
- III. Due to the recent sale of a division, the amount of cash and marketable securities managed by the treasury department has increased by 350 percent.
- IV. The external auditors have indicated some difficulties in obtaining account confirmations.

- A. I and IV only
- B. II, III, and IV only
- C. I and II only
- D. I, II, and III only

Answer: D (LEAVE A REPLY)

NEW QUESTION: 322

After being terminated due to downsizing, an internal auditor finds a different job with an organization in the same industry. Which of the following actions would violate the IIA Code of Ethics?

- A. To determine audit priorities in the new job, the auditor uses the audit risk approach that the auditor's previous employer used, without receiving permission to do so.
- B. In the first week at the new organization, the auditor discovers a high fraud risk surrounding the organization's database and suggests that the information
- C. In preparing for an audit at the previous organization, the auditor had conducted a great deal of research on the Internet at home to identify best practices for the management of a treasury function. The auditor has retained much of the research and uses it to conduct an audit of the new employer's treasury function.
- D. At the new organization, the auditor is asked to develop forms to implement probability-proportional-to-size sampling. Although unsure of how to perform this type of sampling, the auditor proceeds without asking for assistance.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 323

An internal auditor notes that employees are able to download files from the internet. According to IIA guidance, which of the following strategies would best protect the organization from the risk of copyright infringement and licensing violations resulting from this practice?

- A. Install a software inventory management application.
- B. Utilize secure socket layer encryption.
- C. Apply antivirus and patch management software.

D. Utilize dedicated and encrypted network connections.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 324

An internal auditor has been engaged to assess fraud risks associated with a new financial software system.

Which competency would best help the auditor complete the task?

- A. Expertise in identifying information technology risks.
- B. A thorough understanding of organizational governance principles.
- C. Proficiency in creating and utilizing process maps.
- D. Knowledge of key management and business principles.

Answer: A (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 325

Which of the following would the chief audit executive be required to disclose in the communication of quality assessment results to senior management and the board?

- A. The cost and frequency of both internal and external assessments.
- B. Any assumptions made by the assessment team
- C. A potential conflict of interest of the assessment team.
- D. The assessment team's execution plan of relevant procedures.

Answer: C (LEAVE A REPLY)

The chief audit executive is required to disclose any potential conflicts of interest of the assessment team in the communication of quality assessment results to senior management and the board. This disclosure is crucial to maintain the credibility and integrity of the quality assessment process, ensuring that the results are viewed as objective and reliable.

IIA Standard on Quality Assurance and Improvement Program

NEW QUESTION: 326

Which of the following statements is true regarding intangible assets?

- A. The amortization period of an intangible asset cannot exceed 20 years.
- B. The cost intangible assets with indefinite lives should be amortized.
- C. Intangible assets are categorized as having either a limited life or an indefinite life.
- D. Companies should record intangible assets at fair market value

Answer: C (LEAVE A REPLY)

Intangible assets are indeed categorized as having either a limited life or an indefinite life. Those with a limited life are amortized over their useful life, whereas those with indefinite lives, such as some types of intellectual property, are not amortized but must be tested annually for impairment. This categorization helps in the appropriate financial treatment of intangible assets under accounting standards. References: Financial Accounting

Standards Board (FASB) and International Financial Reporting Standards (IFRS) regarding the treatment of intangible assets.

NEW QUESTION: 327

During an assurance engagement the internal audit team discovers that employees performing a control do not understand the principles behind it. Before the engagement concludes, at management's request the audit team facilitates several formal training sessions to help explain those principles to the employees. Which of the following best describes the engagement provided by the internal audit activity in this scenario?

- A. Assurance services
- B. Blended services
- C. Consulting services
- D. Prohibited services

Answer: B (LEAVE A REPLY)

The scenario describes the internal audit team providing both assurance and consulting services. Initially, the internal audit team was engaged in an assurance activity, verifying the effectiveness of controls through standard audit procedures. However, upon discovering a knowledge gap among employees, the team extended their role to include consulting services by conducting training sessions. This mix of both assurance and consulting in the same engagement characterizes what are commonly referred to as blended services.

References: Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 328

According to IIA guidance, which of the following statements is true regarding due professional care?

- A. Internal auditors must exercise due professional care to insure that all significant risks will be identified,
- B. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor
- C. Due professional care requires the internal auditor to conduct extensive examinations and verifications to ensure fraud does not exist,
- D. Due professional care is displayed during a consulting engagement when the internal auditor focuses on potential benefits of the engagement rather than the cost.

Answer: B (LEAVE A REPLY)

According to IIA guidance, due professional care means that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. This involves considering the cost of assurance in relation to potential benefits and exercising judgment and care in accordance with the complexity of the task. It does not imply an

exhaustive review of all transactions or guarantees that all significant risks will be identified or that fraud does not exist.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, specifically those related to due professional care.

NEW QUESTION: 329

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

Answer: A (LEAVE A REPLY)

NEW QUESTION: 330

An internal auditor extended the scope of testing for a disbursements engagement following a fraud risk assessment Despite the investment of additional audit resources no significant issues were found Unfortunately a major payment fraud was discovered several months later According to IIA guidance which of the following statements is true regarding the internal auditor's application of due professional care?

- A. Due professional care was not applied because no additional work should have been performed unless there was actual evidence of fraud
- B. Due professional care was not applied because the extended scope resulted in no issues being identified, while fraud actually existed
- C. Due professional care was applied as the internal auditor modified the scope based on reasonable judgment, despite the additional cost of resources
- D. Due professional care was applied as the cost of audit resources should not be a determining factor in the degree of testing undertaken

Answer: C (LEAVE A REPLY)

Due professional care was applied by the internal auditor. According to IIA guidance, due professional care involves applying reasonable judgment in all audit circumstances. The auditor's decision to extend the scope of testing based on a fraud risk assessment, even though no issues were initially found, represents a judicious use of professional judgment given the potential risk of fraud. The fact that fraud was later discovered does not necessarily imply a lack of professional care, as audits cannot guarantee the detection of all frauds.References:

IIA Standard 1220 - Due Professional Care

NEW QUESTION: 331

A risk assessment showed that the cost of addressing a particular risk in the organization's human resources department is greater than the perceived benefit. Which risk response approach should the organization take in this scenario?

- A. Accept the risk.
- B. Transfer the risk.
- C. Reduce the risk.
- D. Share the risk.

Answer: B (LEAVE A REPLY)

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NEW QUESTION: 332

An internal auditor failed to identify transactions between the parent organization and a subsidiary. What is the most likely reason for the failure?

- A. The auditor misunderstood the audit objectives.
- B. The auditor lacked professional skepticism.
- C. The auditor's fieldwork was not properly supervised.
- D. The auditor lacked an understanding of the organization.

Answer: D (LEAVE A REPLY)

One of the possible reasons for the failure to identify transactions between the parent organization and a subsidiary is that the auditor did not have sufficient knowledge of the group structure, the consolidation process, and the related party disclosure requirements². The auditor should obtain an understanding of the entity and its environment, including its internal control, as part of the risk assessment procedures³. This would help the auditor to identify and assess the risks of material misstatement due to related party transactions, and design and perform appropriate audit procedures to address those risks⁴.

References:

1: IAS 24 - Related Party Disclosures⁵, p. 1 2: Group audit issues | P7 Advanced Audit and Assurance | ACCA ...², p. 1 3: INTERNATIONAL STANDARD ON AUDITING 315 (REVISED) IDENTIFYING AND ... - IFAC¹, p. 1 4: ISA 550 Related Parties - IAASB, p. 1

NEW QUESTION: 333

Operational management in the IT department has developed key performance indicator reports, which are reviewed in detail during monthly staff meetings. This activity is designed to prevent which of the following conditions?

- A. Knowledge/skills gap,
- B. Monitoring gap.
- C. Accountability/reward failure,
- D. Communication failure.

Answer: (SHOW ANSWER)

The development and detailed review of key performance indicator (KPI) reports during monthly staff meetings primarily address potential communication failures. This activity ensures that all team members are aware of the department's performance, expectations, and areas needing attention, thus enhancing transparency and communication within the department. References: Management and organizational theory on performance management and communication; IIA guidance on operational effectiveness.

NEW QUESTION: 334

Which of the following best demonstrates organizational independence of the internal audit activity?

- A. The chief audit executive (CAE) reports functionally to the CEO.
- B. The CAE's compensation is approved by the chief financial officer.
- C. The CAE's appointment is determined by the CEO
- D. The CAE reports administratively to the chief operating officer.

Answer: (SHOW ANSWER)

Organizational independence of the internal audit activity is best demonstrated when the CAE reports functionally to the highest levels within the organization, such as the CEO or directly to the board. Functional reporting involves matters such as audit plans, frequencies, reporting, and budgeting, and it is crucial for ensuring that the internal audit function has the necessary authority and independence from management, which could influence their activities. References: Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing Top of Form

NEW QUESTION: 335

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

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

Answer: D (LEAVE A REPLY)

NEW QUESTION: 336

Which of the following controls within a spreadsheet would address the risk of logic errors?

- 1.The spreadsheet contains formulas that foot and cross-foot data.
- 2.The spreadsheet is locked to protect cell formulas from being inadvertently changed.
- 3.Spreadsheets are included in nightly backup processes.
- 4.Check-in and check-out software is used to manage version control.

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

Answer: C (LEAVE A REPLY)

NEW QUESTION: 337

Which of the following statements correctly describes how workpaper standards can improve the efficiency of internal audit operations?

- A. They allow the design and content to vary depending on the nature of the engagement.
- B. They require supervisors to provide written confirmation of the workpapers they review.
- C. They grant external parties approved by management access to workpapers.
- D. They mandate the workpaper retention period.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 338

While performing an internal audit engagement, an auditor reviews a flowchart of the organization's purchasing function. Which of the following internal control weaknesses would the auditor be able to identify in the chart?

- A. That purchasing policies have not been updated.
- B. That supplier invoices are processed and paid before the goods are received.
- C. That the organization is not taking advantage of quantity discounts available from its suppliers.
- D. That authorization for payment of goods received has not been granted at the appropriate level.

Answer: B (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 339

During the audit of taxation processes in the organization internal auditors have verified that all employees of the finance department received training on taxation guidelines. The training is mandatory and is automatically assigned via email invitation to all new employees in the department. Which type of controls have the auditors tested?

- A. Automatic.
- B. Detective.
- C. Directive.

D. Preventive.

Answer: (SHOW ANSWER)

NEW QUESTION: 340

A third-party provider's questionable labor practices have exposed the organization to reputational risks and regulatory risks. Which of the organization's risk management practices was most likely ineffective?

A. The organization conducted quality control reviews of provided services to ensure industry standards were met.

B. The organization ensured that the third-party vendor provided the best pricing for the requested services.

C. The organization planned to issue a resolution concerning the third-party provider's labor practices.

D. The organization performed a due diligence review of all vendors during the bid review process.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 341

Continuing Professional Education (CPE) hours for Certified Internal Auditors may be achieved by:

A. Publishing an article on the company's internal audit department.

B. Attending audit staff meetings.

C. Obtaining experience on the job.

D. Verifying that all completed audit tests are fully documented.

Answer: (SHOW ANSWER)

NEW QUESTION: 342

According to IIA guidance, which of the following is accurate regarding the chief audit executive's (CAE's) requirement to report the results of quality assessments?

1. The CAE must report the results of external assessments at least annually.

2. The CAE must report the results of ongoing monitoring at least annually.

3. The CAE must report the results of quality assessments to senior management.

4. The CAE must report the results of quality assessments to the board.

A. 2 and 4 only.

B. 1 and 3 only.

C. 1,2, and 3.

D. 2,3, and 4.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 343

An internal audit activity uses a rotational program to recruit high-performing staff members from other parts of the organization. One of these individuals is nearing the end of her four-year internal audit rotation. The chief audit executive assigned her to an assurance engagement in the business area she will be going into when she leaves the internal audit activity. Which of the following statements is true regarding this scenario?

- A. Accepting the assignment is a violation of internal audit independence.
- B. Accepting the assignment will improve competencies and develop relationships that will be needed in her next assignment.
- C. Accepting the assignment creates the appearance of an impairment to her professional judgment and objectivity.
- D. Accepting the assignment on the assurance engagement would be a breach of due professional care.

Answer: (SHOW ANSWER)

Accepting the assignment creates the appearance of an impairment to her professional judgment and objectivity. This is because the individual is auditing an area where she will soon work, which could potentially influence her audit work, either consciously or unconsciously, due to personal interest in the future role.

IIA Standards on Independence and Objectivity

NEW QUESTION: 344

Why is a code of ethics for the internal audit profession necessary?

- A. It ensures that all members of the profession possess the same level of competence.
- B. It provides auditors with protection from lawsuits.
- C. It guides internal auditors in their service to others.
- D. It requires auditors to exhibit loyalty to their organizations.

Answer: C (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 345

According to IIA guidance, which of the following is the primary reason the chief audit executive discusses the internal audit charter with senior management and the board?

- A. To provide guidance and solicit feedback on managing the internal audit activity as expected by various stakeholders.
- B. To provide an understanding of the Mission of Internal Audit and The IIA's mandatory guidance elements.
- C. To provide an update on the internal audit activity's quality of engagement supervision.
- D. To provide information on existing internal audit planning, changes to the internal audit plan, and the rationale for the changes.

Answer: B (LEAVE A REPLY)

According to IIA guidance, the primary reason the chief audit executive discusses the internal audit charter with senior management and the board is to provide an

understanding of the Mission of Internal Audit and The IIA's mandatory guidance elements. The charter defines the purpose, authority, and responsibility of the internal audit activity, aligning it with the organization's objectives and governance. References: The IIA's International Professional Practices Framework (IPPF) particularly emphasizes the importance of the internal audit charter as a foundational document.

NEW QUESTION: 346

During an audit engagement, an internal auditor finds that management is not complying with previous commitments made to the external auditors. However, the auditor determines management's actions to be justified due to significant changes in the business. The best course of action for the auditor to take would be to:

- A.** Proceed with the audit engagement and assess the changes actually implemented by management.
- B.** Inform the external auditors and remove the associated work from the internal audit scope.
- C.** Compare the recommended changes against the changes made by management and advise management which action to take.
- D.** Inform the external auditors and seek their guidance.

Answer: A (LEAVE A REPLY)

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NEW QUESTION: 347

Which of the following statements best describes how the internal audit activity obtains reasonable assurance that significant risks in the organization are identified and assessed?

- A.** The internal auditors review the organization's strategic plan, business plan, and policies, and have discussions with the board and senior management.
- B.** The internal auditors evaluate the adequacy and timeliness of management's reporting of risk management results.
- C.** The internal auditors review recently completed risk assessments and related reports issued by senior management, external auditors, and other sources.
- D.** The internal auditors interview staff at various levels and determine whether the organization's objectives, significant risks, and risk appetite are articulated sufficiently.

Answer: (SHOW ANSWER)

NEW QUESTION: 348

Why is it imperative for the chief audit executive to track and develop the educational qualifications of internal audit staff?

- A.** To accurately conduct performance appraisals
- B.** To ensure that staff complete required continuing professional education credits annually.
- C.** To ensure that the resources needed to complete the audit plan are available.
- D.** To satisfy the audit committee requirements.

Answer: (SHOW ANSWER)

It is imperative for the chief audit executive to track and develop the educational qualifications of internal audit staff to ensure that the resources needed to complete the audit plan are available. By maintaining a well-qualified audit team, the CAE ensures that the internal audit activity is equipped to address the range of risks and controls that the audit plan encompasses, thereby fulfilling its responsibilities effectively. References: IIA guidance on human resources management within internal audit, which emphasizes the importance of continuing education and staff development to meet the organization's audit needs.

NEW QUESTION: 349

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: A (LEAVE A REPLY)

According to IIA guidance, the internal audit activity should refrain from indicating conformance with the Standards until all areas of nonconformance identified in a quality assessment have been addressed and the chief audit executive has confirmed this to the audit committee. This ensures that the internal audit activity only claims conformance when it fully meets the Standards, maintaining the credibility of the audit function. References: Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, and guidance on external quality assessments.

NEW QUESTION: 350

Which of the following is most likely to function as a directive control?

- A. Alert employees.
- B. Cycle counts.
- C. Security dogs.
- D. Insurance claims.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 351

Which of the following would be considered a violation of The IAf'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 (LEAVE A REPLY)

According to the IIA's mandatory guidance on independence, allowing senior management to have influence over the CAE's salary adjustments could potentially compromise the independence of the internal audit function. The board should independently approve the CAE's salary without seeking senior management's recommendation to maintain the internal audit function's independence. References: The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, specifically standards related to independence.

NEW QUESTION: 352

The chief audit executive (CAE) of a small internal audit activity (IAA) performs all high-risk engagements on the annual audit plan to make use of his knowledge and experience and to maximize the efficient use of audit resources. Which of the following statements is most relevant regarding this practice?

- A. The CAE should avoid performing engagements to ensure he is able to review all audit work objectively.
- B. The CAE's work should be reviewed by an individual with the appropriate background and knowledge.
- C. The CAE may self-review his work, provided he discloses this practice in the final report.
- D. The CAE's work may be reviewed by any other experienced staff member within the IAA.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 353

An internal audit team received the following feedback from operational management via a post-engagement survey "Management agrees with all audit findings However, the audit team did not consider our input on the best way to resolve the issues" This feedback is an indication that the internal audit activity may need to improve which of the following interpersonal skills?

- A. Leadership
- B. Conflict management
- C. Communication
- D. Influence

Answer: C (LEAVE A REPLY)

The feedback from operational management highlights a lack of effective communication. While the internal audit team effectively communicated the audit findings, they failed to adequately consider and integrate management's input on resolving the issues. Improving communication skills would help the internal audit team to better engage stakeholders throughout the audit process and integrate their perspectives into the audit recommendations effectively.

The Institute of Internal Auditors (IIA) - Competency Framework for Internal Auditors

NEW QUESTION: 354

An Internal auditor accepted a role as an engagement supervisor on a highly specialized and technical engagement for which she did not have the expertise. Which of the following fundamental principles of The IIA's Code of Ethics did she violate?

- A. Objectivity.
- B. Confidentiality.
- C. Competency.
- D. Due professional care.

Answer: (SHOW ANSWER)

By accepting a role as an engagement supervisor on a highly specialized and technical engagement for which she did not have the expertise, the internal auditor violated the fundamental principle of competency as outlined in The IIA's Code of Ethics. The principle

of competency requires internal auditors to perform audit services with the necessary knowledge, skills, and experience. Accepting an assignment without the required expertise undermines the quality and reliability of the audit work.

The IIA Code of Ethics: "Internal auditors shall engage only in those services for which they have the necessary knowledge, skills, and experience." The IIA Standards: Standard 1210 - Proficiency: "Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities."

NEW QUESTION: 355

Which of the following best describes an appropriate form of working paper standardization?

- A. Uniform cross referencing system.
- B. Customized layouts for each specific audit area.
- C. Comprehensive data lists from information databases.
- D. Audit client review and approval.

Answer: (SHOW ANSWER)

Section: Volume D

NEW QUESTION: 356

An internal auditor is reviewing employee travel expenses from the previous six months for fraud. Which of the following tests would best detect instances where personal travel has been claimed?

- A. Verifying whether claims have been properly authorized for payment
- B. Verifying whether claims are properly supported by invoices or other documents.
- C. Confirming that all claims are within the limits of the organization's travel policy.
- D. Reconciling claims against business the requests that were approved by supervisors

Answer: D (LEAVE A REPLY)

The most effective way to detect fraudulent claims for personal travel as business expenses is by reconciling claims against the business requests approved by supervisors. This method helps to verify that each claim corresponds directly to an approved and legitimate business activity, which is a critical checkpoint in detecting fraud in travel expenses. References: Institute of Internal Auditors (IIA) Standards and Guidelines.

NEW QUESTION: 357

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. So that the individual objectivity of the internal audit staff can be more clearly established.
- B. Because management requires the review to measure effectiveness of the internal audit activity.

C. Because changes in the organization may impair the internal audit activity's ability to meet its objectives.

D. So that there is assurance of the internal audit staff's proficiency to complete audit activities.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 358

A new chief audit executive realized that the internal audit charter has not been updated in five years and only includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the Standards. What mandatory component is missing?

A. Statement of Independence.

B. Operating Procedures of Internal Auditing.

C. Definition of Internal Auditing.

D. Attestation of Quality Assurance.

Answer: C (LEAVE A REPLY)

The internal audit charter should include the Definition of Internal Auditing, along with the Core Principles, Code of Ethics, and Standards. This definition provides clarity on the purpose, authority, and responsibility of the internal audit function within the organization.

References:

* IIA's International Professional Practices Framework (IPPF) - Internal Audit Charter requirements.

NEW QUESTION: 359

When using a risk assessment model to develop audit plans, it is essential that the chief audit executive take into account the:

A. Results of the last audit.

B. Planned visits by the external auditors during the upcoming year.

C. Recent or expected changes in management direction and objectives.

D. Dates of future board meetings.

Answer: (SHOW ANSWER)

Section: Volume B

NEW QUESTION: 360

Which of the following statements best describes how the internal audit activity obtains reasonable assurance that significant risks in the organization are identified and assessed?

A. The internal auditors review the organization's strategic plan, business plan, and policies, and have discussions with the board and senior management.

B. The internal auditors evaluate the adequacy and timeliness of management's reporting of risk management results.

- C.** The internal auditors interview staff at various levels and determine whether the organization's objectives, significant risks, and risk appetite are articulated sufficiently.
- D.** The internal auditors review recently completed risk assessments and related reports issued by senior management, external auditors, and other sources.

Answer: (SHOW ANSWER)

Internal auditors obtain reasonable assurance that significant risks are identified and assessed primarily through comprehensive reviews of the organization's strategic plan, business plan, and policies. Discussions with the board and senior management further enrich the auditors' understanding of the strategic directions and risk management processes, ensuring that all significant risks are identified and effectively addressed in alignment with organizational objectives.

Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 361

Which of the following statements best describes a functional difference between external auditors and internal auditors?

- A.** Internal auditors evaluate past achievements to understand whether controls are operating effectively, and external auditors focus on the accuracy of financial reporting.
- B.** Internal auditors provide assurance about the sufficiency of controls to manage risks. Including risks of failure to achieve future goals, and external auditors evaluate the accuracy and understandability of financial reporting.
- C.** internal auditors are always employed by the organization, rather than outsourced, and external auditors are never employed by the organization but contracted independently.
- D.** Internal auditors are most directly concerned with the detection of fraud, while external auditors are most directly concerned with the prevention of fraud.

Answer: B (LEAVE A REPLY)

Internal auditors focus on assessing the adequacy of controls to manage various risks within the organization, including operational and strategic risks. External auditors primarily focus on the accuracy and reliability of the organization's financial statements and compliance with relevant accounting standards. References:

- * IIA Standard 2100: Nature of Work.
- * IIA Practice Guide: Coordination and Reliance: Developing an Assurance Map.
- * External Audit Standards (e.g., Generally Accepted Auditing Standards - GAAS).

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NEW QUESTION: 362

In which of the following scenarios would the internal auditor's objectivity be best protected?

- A. A former human resources manager conducts an effectiveness review of the appointment and termination process six months after transferring to the internal audit activity.
- B. An accounts payable clerk assists the internal auditors during an effectiveness review of the physical access controls to the server room.
- C. An internal auditor writes the system manual for a newly acquired payroll software application prior to conducting an effectiveness review of the system.
- D. An internal auditor conducts an effectiveness review of an organization's business continuity plan in which his son is a minority stockholder.

Answer: A (LEAVE A REPLY)

The internal auditor's objectivity is best protected in the scenario where a former human resources manager conducts an effectiveness review of the appointment and termination process six months after transferring to the internal audit activity. This duration allows for a cooling-off period, which helps to mitigate potential conflicts of interest or biases related to the auditor's former role and responsibilities.

IIA Standards regarding objectivity and conflicts of interest.

NEW QUESTION: 363

According to the International Professional Practices Framework, internal auditors should possess which of the following competencies?

- I. Proficiency in applying internal auditing standards, procedures, and techniques.
- II. Proficiency in accounting principles and techniques.
- III. An understanding of management principles.
- IV. An understanding of the fundamentals of economics, commercial law, taxation, finance, and quantitative methods.

- A. I, III, and IV only
- B. I only
- C. II only
- D. I and III only

Answer: (SHOW ANSWER)

NEW QUESTION: 364

According to the Standards, which of the following is a requirement for internal audit professional development plans?

- A.** Plans must include a path to certification so that each internal auditor has a certification in auditing finances.
- B.** Plans must ensure that staff development activities are based primarily on the skills and competencies needed to complete the audit plan.
- C.** Plans must include rotating audit areas so that auditors acquire business knowledge to be efficient in performing engagements.
- D.** Plans must include rotating auditors out into business units for temporary assignments so they can obtain more business knowledge.

Answer: (SHOW ANSWER)

According to the Standards, internal audit professional development plans must ensure that staff development activities are based primarily on the skills and competencies needed to complete the audit plan. This requirement ensures that the internal audit staff possesses the necessary expertise and capabilities to effectively carry out the planned audit activities. IIA Standards related to Continuing Professional Development and Staff Proficiency.

NEW QUESTION: 365

A financial services organization's board is assessing increased regulations and its effect on current industry lending practices. Which of the following committees would help the board identify and assess the effects of the increased regulations?

- A.** Quality committee.
- B.** Audit committee.
- C.** Risk committee.
- D.** Governance committee.

Answer: C (LEAVE A REPLY)

The risk committee is best suited to help the board identify and assess the effects of increased regulations on current industry lending practices. The risk committee focuses on overseeing the organization's risk management policies and procedures, ensuring that all risks, including regulatory risks, are identified, assessed, and managed appropriately. This committee is responsible for understanding the implications of regulatory changes and advising the board on how these changes may impact the organization's operations and strategic objectives. References:

- * The IIA's Practice Guide on Risk Management.
- * COSO's Enterprise Risk Management Framework.

NEW QUESTION: 366

In which of the following situations would the organizational independence of an internal audit activity be impaired?

- A.** Scope limitations are imposed on internal audits.
- B.** The chief audit executive reports administratively to the CEO.
- C.** The internal audit activity provides assurance services for an activity for which the engagement supervisor had responsibility within the previous year.

D. The compensation committee of the board approves the remuneration of the chief audit executive.

Answer: (SHOW ANSWER)

NEW QUESTION: 367

An investment advisory firm purchased professional liability insurance to offer protection from lawsuits brought by customers claiming they received poor or erroneous advice. Which of the following best describes this risk management technique?

- A. Transfer.
- B. Mitigation.
- C. Acceptance
- D. Avoidance

Answer: A (LEAVE A REPLY)

NEW QUESTION: 368

A chief audit executive (CAE) is planning to issue an annual report concluding on the overall effectiveness of the organization's internal control system. According to the Standards, which of the following is likely the most significant challenge facing the CAE when creating the report?

- A. Assessing control effectiveness is complicated by inherent risks.
- B. The opinion is only issued once a year, limiting its usefulness.
- C. The opinion is dependent on complex analyses of numerous internal audit engagements carried out over the prior year.
- D. The opinion must include difficult to measure risks such as the risks of management override of controls, and collusion among dishonest personnel.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 369

Which of the following best demonstrates the board of directors' governance over internal control?

- A. The board bears direct responsibility for developing and implementing the internal control system.
- B. The majority of board members are experienced and qualified members of the organization's executive management team.
- C. The board may be assisted by an audit committee, chaired by the chief audit executive.
- D. The board is responsible for succession planning for the CEO and other key members of the executive management team.

Answer: (SHOW ANSWER)

This option best demonstrates the board of directors' governance over internal control by illustrating their role in ensuring the continuity and integrity of leadership, which is a crucial aspect of the internal control environment. Succession planning, especially for top

leadership positions, is a critical governance role that impacts the organization's strategy and risk management practices.

Institute of Internal Auditors (IIA) - Guidelines on Governance Roles of Boards

NEW QUESTION: 370

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. 1.2. 4. and 5 only.

B. 1.2, and 3 only.

C. 4 and 5 only.

D. 2. 3. 4. and 5 only.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 371

Which of the following characteristics is typical of the internal audit activity?

A. Responds to the needs and desires of senior management and the board, but remains independent of areas under review

B. Serves third parties that need reliable financial information from audit engagements

C. Is completely independent of senior management, the board and the area under review

D. Ensures the organization complies with laws and regulations in the area under review

Answer: C (LEAVE A REPLY)

NEW QUESTION: 372

If an engagement client disputes that a specific action or process is within the scope of the internal audit activity, what would be the most appropriate way for the internal audit activity (IAA) to respond?

A. Refer the client to the IAA's charter and the approved yearly audit plan, which includes the areas designated for audit in the current time period.

B. Seek the approval of senior management or the board in mediation, allowing an overseer to clarify the scope of the audit engagement for the client.

C. Terminate only the specific action or process with which the client disagrees and work to determine a substitute function that will not impede further IAA or the client-audit relationship.

D. Terminate the audit engagement in full because an operational audit will not be productive without the client's cooperation.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 373

Which of the following is a legitimate role for the internal audit activity in the organization's risk management process'?

- A. Championing the establishment of a risk management framework
- B. Creating and implementing new risk management processes
- C. Maintaining sole responsibility for risk management within the organization
- D. Setting the risk appetite of the organization

Answer: (SHOW ANSWER)

NEW QUESTION: 374

An internal auditor is testing, on a sample basis, whether invoices paid between January 1 and December

31 are supported by appropriately approved purchase orders. Over 25, 000 invoices were paid during the fiscal year, which runs from the first of April to the end of March. The auditor sets the acceptable risk of assessing control risk too low at 5% and the tolerable deviation rate at 5%. The internal auditor consults the previous audit and sets the expected population deviation rate at 1%. Sample size (77) is selected from a table and rounded up to 80. No sample deviations were found. The upper deviation limit was 3.7%.

Which of the following statements represents a valid conclusion regarding this information?

A. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%.

The quantitative attribute testing results indicate that the control is effective.

B. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%.

Results indicated that the sample size was too small, as no sample deviations were found.

C. I am 95% confident that the actual population deviation rate is 3.7%. Since this is less than the tolerable deviation rate, quantitative attribute testing results indicate that the control is effective.

D. I am 95% confident that the true, but unknown, population deviation rate is less than or equal to 3.7%.

The quantitative attribute testing results indicate that the control is not effective.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 375

An internal audit of an organization's disbursement department revealed that multiple payments were made to legitimate vendors bearing fraudulent banking information belonging to employees in the department. These vendors were initially set up with accurate banking information but were subsequently modified by disbursement officers with access to the vendor management system.

Which of the following controls would have likely prevented the fraudulent modification of vendors' banking information?

- A. Management's approval is required before payments can be processed.
- B. Management's approval is required for update to vendors' banking information.
- C. Management randomly audits a sample of payments to verify the accuracy of vendors' banking information.
- D. Management periodically reviews and verifies the information in the vendor master file.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 376

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. 1.3. and 4.
- B. 2. 3, and 4.
- C. 1.2. and 4.
- D. 1. 2. and 3.

Answer: (SHOW ANSWER)

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NEW QUESTION: 377

An internal auditor believes that a weakness exists in the control environment relating to the delegation of authority and responsibility within the management structure. Which of the following actions should the internal auditor first consider in this matter?

- A. Address the risk with senior management and the board
- B. Evaluate the potential impact on related controls
- C. Recommend a control change and obtain management support
- D. Develop and communicate the scope and evaluation criteria to be used by management

Answer: B (LEAVE A REPLY)

NEW QUESTION: 378

To determine if a new computer system is improving the use of a manufacturer's limited facilities in serving the largest number of customers, an auditor should compare.

- A. The number of reworked orders and their costs before and after system installation.
- B. Inventory and materials handling costs before and after system installation.
- C. The number of orders filled and their cycle times before and after system installation.
- D. The number of reworked orders and orders filled before and after system installation.

Answer: C (LEAVE A REPLY)

Section: Volume A

NEW QUESTION: 379

An organization has developed a large database that tracks employees, employee benefits, payroll deductions, job classifications, and other similar information. In order to test whether data currently within the automated system are correct, an auditor should:

- A. Use generalized audit software to select a sample of employees from the database. Verify the data fields.
- B. Select a sample of data to be entered for a few days and trace the data to the updated database to determine the correctness of the updates.
- C. Use generalized audit software to provide a printout of all employees with invalid job descriptions. Investigate the causes of the problems.
- D. Use test data and determine whether all the data entered are captured correctly in the updated database.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 380

An organization is testing a new IT system for digital data storage and security. The internal audit activity has been asked to evaluate the system in a consulting engagement. Although several internal auditors on staff are qualified to perform basic assessments of IT systems, none are familiar with the new system. Which of the following is a legitimate response to the prospective client?

1. Decline the engagement.
 2. Proceed with the engagement, performing only those parts of the engagement that the internal auditors are qualified to perform.
 3. Accept the engagement and develop the additional competencies in-house prior to the engagement's starting date.
 4. Make arrangements to obtain assistance from a competent IT auditing expert.
- A. 1 and 4 only.
 - B. 2 and 3 only.
 - C. 1, 2, and 3 only.
 - D. 1, 3, and 4 only.

Answer: D (LEAVE A REPLY)

A legitimate response to the prospective client under these circumstances would be to decline the engagement due to lack of specific competencies or make arrangements to obtain assistance from a competent IT auditing expert. These options ensure that the internal audit activity maintains its professional competence and integrity by only undertaking engagements where they can provide or ensure the required level of expertise.

IIA standards on professional competence and due care, which stipulate that internal auditors must have or obtain the necessary knowledge and skills to perform their tasks effectively, and if not, they should decline the engagement or seek expert assistance.

NEW QUESTION: 381

During an internal audit, the internal auditor compares the employee turnover rate in the area being audited with the employee turnover rate in the organization as a whole. This is an example of which of the following analytical auditing procedures?

- A. Trend analysis.
- B. Benchmarking.
- C. Regression analysis.
- D. Reasonableness test.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 382

During a monthly internal audit staff meeting, the chief audit executive (CAE) decided to reinforce the importance of internal audit staff being objective in their work. Which of the following examples would be most appropriate for the CAE to include as part of the meeting presentation?

- A. Statistical sampling techniques should always be used to pull unbiased sampling for testing.
- B. Fieldwork completed by internal auditors should be appropriately reviewed.
- C. Internal auditors should avoid using the lunch room simultaneously with audit clients.
- D. During the audit review period, there should be no nonaudit dialogues with the audit client.

Answer: (SHOW ANSWER)

Emphasizing the review of fieldwork completed by internal auditors is crucial for maintaining objectivity.

This practice ensures that work is independently checked, helping to prevent bias or errors in the audit process. Regular review by a different auditor or a supervisor can help maintain objectivity and adherence to auditing standards. References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 1311 - Internal Assessments, and Standard 1320 - Reporting on the Quality Assurance and Improvement Program.

NEW QUESTION: 383

Which of the following statements is not true?

- A.** The nature of consulting services that are performed by the internal audit activity should be defined in the audit charter.
- B.** A party outside the internal audit activity should oversee assurance engagements for functions over which the chief audit executive has responsibility.
- C.** It is inappropriate for internal auditors to provide consulting services relating to operations for which they had previous responsibilities.
- D.** The chief audit executive should decline a consulting engagement if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or a part of the engagement.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 384

An organization receives the most value from an internal audit activity's enterprise-wide risk assessment when the auditor:

- A.** Validates supporting financial and operational data.
- B.** Focuses primarily on enterprise-level risks.
- C.** Considers activities at all levels of the organization.
- D.** Reviews special projects and new initiatives.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 385

A fast-food company is developing a computer simulation involving arrival time at a drive-through restaurant. The distribution for arrival times is:

Time

Single-Digit Random

Between Arrivals

Probability

Number Assigned

2 minutes

0.1

3 minutes

0.2

1, 2

4 minutes

0.3

3, 4, 5

5 minutes

0.4

6, 7, 8, 9

Six random numbers are selected to represent the arrival of six cars: 1, 6, 9, 0, 5, 6.
What is the mean time between arrivals in this run of the simulation model?

- A. 5 minutes.
- B. 4 minutes.
- C. 3 minutes.
- D. 2 minutes.

Answer: [\(SHOW ANSWER\)](#)

NEW QUESTION: 386

Which of the following is an advantage of using nongovernmental organization (NGO) members on an assurance team when auditing corporate social responsibility?

- A. A report with a positive statement from an NGO member is deemed to be more credible.
- B. NGO members are often more unbiased and objective.
- C. As opposed to auditors, NGO members are licensed to audit corporate social responsibility.
- D. Typically less time is needed to train the NGO members on the audit process.

Answer: [B \(LEAVE A REPLY\)](#)

NEW QUESTION: 387

What is the primary reason a chief audit executive should dedicate time and resources to support continuing professional development of internal audit staff?

- A. To ensure that internal audit staff maintains high overall job satisfaction.
- B. To ensure that internal audit staff acquired continuing professional education credits timely.
- C. To ensure that top risks are mitigated to an acceptance level.
- D. To ensure that internal audit staff have the competency to address high-priority risks.

Answer: [D \(LEAVE A REPLY\)](#)

The primary reason a chief audit executive should dedicate time and resources to the continuing professional development of internal audit staff is to ensure they have the competency to address high-priority risks.

Continuous professional development ensures that audit staff are equipped with up-to-date knowledge and skills necessary to effectively audit complex and evolving risk environments, thereby contributing directly to the effectiveness and reliability of the internal audit function. References: IIA standards on continuing professional development and staff competencies.

NEW QUESTION: 388

A bank uses a risk analysis matrix to quantify the relative risk of auditable entities. The analysis involves rating auditable entities on risk factors using a scale of 1 to 10, with 10 representing the greatest risk. A partial list of risk factors and the ratings given to three of the bank's departments is provided below:

Department Risk Factor A B C Control structure 9 5 7

Nature of assets in department 2 7 9

Dollar value of assets 6 6 8

Complexity of transactions 3 4 8

Which of the following statements regarding risk in the departments is true?

- A.** The internal audit activity should schedule audits of department B more often than audits of department C because of the relative control strength of department C as compared to department
- B.** The nature of department A's control structure may be justified by the nature of the department's assets and the complexity of its transactions.
- C.** As compared to departments A and C, department B has a stronger control system to compensate for the greater complexity of the department's transactions and dollar value of its assets.
- D.** The relative ranking of the departments in order of their risk, from greatest to least risk, is: A; C; B.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 389

Which of the following would be included in quality assurance and improvement program (QAIP) reporting?

- A.** Descriptions of standardized work practices.
- B.** Outcomes of internal audit key performance indicators.
- C.** Conformance of individual engagements with the Standards,
- D.** Annual summaries of consulting and audit engagements.

Answer: C (LEAVE A REPLY)

In the quality assurance and improvement program (QAIP) reporting, the inclusion of conformance of individual engagements with the Standards is essential. This aspect of the QAIP ensures that all audit activities adhere to the International Standards for the Professional Practice of Internal Auditing, thereby maintaining the integrity and effectiveness of the audit function. Reporting on conformance highlights the audit activity's alignment with globally recognized standards and practices, which is a critical component of quality assurance in internal auditing.

IIA's International Standards for the Professional Practice of Internal Auditing on Quality Assurance and Improvement Programs.

NEW QUESTION: 390

Which of the following documents most directly describes the guidelines for and importance of the objectivity of internal auditors?

- A.** Internal audit quality assessments.
- B.** Internal audit charter.
- C.** Internal audit plan.

D. Internal audit reporting.

Answer: B (LEAVE A REPLY)

The internal audit charter outlines the internal audit function's objectives, independence, and scope. IIA guidance specifies the charter as the foundational document defining the internal audit activity's objectivity and position within the organization.

NEW QUESTION: 391

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

- A. Speak to the payroll manager so he may investigate the auditor's observations.
- B. Continue to investigate the payments to confirm the accuracy of the observations, and determine whether further fraudulent payments have been made.
- C. Stop the audit and report the findings to senior management immediately.
- D. Escalate the concern to the engagement supervisor.

Answer: D (LEAVE A REPLY)

When an internal auditor suspects fraudulent activity, such as erroneous payments to a fraudulent bank account, the appropriate course of action is to escalate the concern to the engagement supervisor (Option D).

This step ensures that the issue is handled with the necessary urgency and oversight. According to the IIA Standards, particularly Standard 2060: Reporting to Senior Management and the Board, the CAE must communicate significant risk exposures and control issues, including fraud risks, to senior management and the board. Escalating the concern ensures the appropriate levels of the organization are aware and can take timely action.

IIA Standards, Standard 2060: Reporting to Senior Management and the Board IIA Practice Guide: Internal Auditing and Fraud

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NEW QUESTION: 392

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: A (LEAVE A REPLY)

According to IIA guidance, the internal audit activity should refrain from indicating conformance with the Standards until all areas of nonconformance identified in a quality assessment have been addressed and the chief audit executive has confirmed this to the audit committee. This ensures that the internal audit activity only claims conformance when it fully meets the Standards, maintaining the credibility of the audit function.

References: Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, and guidance on external quality assessments.

NEW QUESTION: 393

A large trucking organization wants to reduce traffic accidents by improving its system of internal controls.

Which of the following controls is correctly classified?

1. Review of speeding violations to identify repetitive locations and drivers is an example of a preventive control.
2. Defensive driver training is an example of a directive control.
3. The installation of tracking devices in delivery vehicles is an example of a corrective control.
4. Providing a vehicle driver handbook is an example of a detective control.

A. 1 and 2.

B. 1 and 4.

C. 2 and 3.

D. 3 and 4.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 394

According to MA guidance, which of the following is the most accurate statement regarding the internal audit charter?

- A. The IIA's Code of Ethics must exist outside of the charter to maintain independence.
- B. The charter must be approved by both senior management and the board.
- C. The nature of consulting services does not need to be defined in the Internal audit charter.
- D. The charter provides a framework for performing a broad range of value-added audit services.

Answer: B (LEAVE A REPLY)

The most accurate statement regarding the internal audit charter according to IIA guidance is that the charter must be approved by both senior management and the board. This ensures that the internal audit activity's purpose, authority, and responsibility are clearly defined and acknowledged by the organization's leadership, facilitating alignment with organizational governance.

The IIA's guidance on internal audit charters, which emphasizes approval by senior management and the board as a key requirement.

NEW QUESTION: 395

With regard to governance, which of the following is a board-level responsibility rather than a management responsibility?

- A. Assigning authority and responsibilities organizationwide.
- B. Obtaining assurance on external financial, regulatory, and internal audits.
- C. Complying with laws, regulations, and codes.
- D. Monitoring and measuring performance.

Answer: (SHOW ANSWER)

NEW QUESTION: 396

To assure that the technical proficiency of internal auditors is appropriate for the audit engagements to be performed, a chief audit executive should:

- A. Require all of the audit staff to pursue a minimum number of continuing professional education hours each year.
- B. Oversee a training program that matches the actual training provided with the interests of individual auditors.
- C. Ensure that each newly hired auditor is qualified in all of the disciplines needed to accomplish the department's audit mission.
- D. Consider the scope of work and level of responsibility when establishing criteria for education and experience in filling internal auditing positions.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 397

Which of the following fraud schemes is often an off-book fraud*?

- A. Payroll fraud
- B. Disbursement fraud
- C. Corruption
- D. Information misrepresentation

Answer: (SHOW ANSWER)

Information misrepresentation is often considered an off-book fraud. Off-book fraud refers to deceptive activities that do not directly involve the organization's accounting systems but relate to the misrepresentation or manipulation of information outside of recorded transactions. This type of fraud might involve falsifying business records, misstating facts to stakeholders, or other forms of deceit not directly reflected in financial records. Fraud examination and financial forensics literature, which often categorize information misrepresentation under off-book schemes.

NEW QUESTION: 398

An internal auditor believes that a weakness exists in the control environment relating to the delegation of authority and responsibility within the management structure. Which of the following actions should the internal auditor first consider in this matter?

- A. Recommend a control change and obtain management support.
- B. Evaluate the potential Impact on related controls.
- C. Address the risk with senior management and the board.
- D. Develop and communicate the scope and evaluation criteria to be used by management.

Answer: B (LEAVE A REPLY)

When an internal auditor identifies a weakness in the control environment relating to the delegation of authority and responsibility, the first action should be to evaluate the potential impact on related controls. This evaluation helps the auditor understand how the identified weakness might affect other control processes within the organization. By assessing the impact, the auditor can gather the necessary information to determine the significance of the weakness and develop a more informed recommendation for addressing the issue. The IIA Standards: Standard 2210 - Engagement Objectives: "Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives." COSO Framework: Emphasizes the need for evaluating the impact of weaknesses in the control environment on related controls.

NEW QUESTION: 399

An internal auditor for a large computer company suspects that returned computer systems are being repackaged as new products and shipped to other customers before the defects

have been repaired. Which of the following would be the most persuasive piece of evidence in support of the auditor's suspicions?

- A. Credit memos issued after year end for goods shipped before year end.
- B. Evidence of returned goods in the shipping and receiving area.
- C. An unusual number of customer complaints.
- D. The results of a complete physical inventory taken at year end.

Answer: C (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 400

In which scenario might it be considered problematic for the chief audit executive (CAE) to provide assurance services over the payroll function?

- A. Prior to becoming the CAE, the CAE was the payroll manager.
- B. The CAE previously undertook a consulting assignment in that area to improve processes,
- C. The assurance review was initiated following issues identified during a consulting assignment requested by management.
- D. A couple of years ago, the CAE performed accounting functions for the payroll department.

Answer: (SHOW ANSWER)

NEW QUESTION: 401

Which competency is required of all staff internal auditors prior to the commencement of an IT audit?

- A. The ability to assess IT governance.
- B. The ability to provide an explanation on the risk profile of the organization to the board and senior management.
- C. The ability to ensure that proposals for improvements to internal controls are balanced with organizational objectives and capabilities.
- D. The ability to assess the potential for fraud risk and identifying common types of fraud associated with the engagement.

Answer: D (LEAVE A REPLY)

Prior to the commencement of an IT audit, the ability to assess the potential for fraud risk and identifying common types of fraud associated with the engagement is a required competency for internal auditors.

Understanding the specific fraud risks inherent in IT systems and processes is essential for effectively auditing these areas, particularly in detecting and preventing fraud. References:

IIA's Competency Framework for Internal Auditors

NEW QUESTION: 402

Which of the following scenarios best demonstrates the application of internal audit proficiency?

- A.** A CAE reassigns auditors from other audits to perform testing on all of the fixed asset additions for a period, including amounts below the materiality level stated by external auditors.
- B.** During fieldwork, an auditor observed a lack of segregation of duties over cash management. The auditor reported this observation to his supervisor, who decided that the area should be examined in a subsequent audit.
- C.** Management requests that the internal audit activity review and provide feedback on its strategic plans for a merger, but the chief audit executive (CAE) declines the engagement due to the team's lack of experience with mergers.
- D.** Due to the routine and recurring nature of bank branch audits, an audit manager often excludes detailed planning at the beginning of the audit and immediately performs fieldwork.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 403

The internal audit staff lacks the expertise to perform a specific activity when auditing an organization. Which of the following individuals is not an appropriate choice to perform this task?

- A.** A researcher affiliated with a college or university.
- B.** A consultant from an outside firm.
- C.** A specialist from the staff of a government agency.
- D.** An expert within the department being audited.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 404

A candidate has applied for an entry level internal audit position. The candidate holds a CISA (Certified Information Systems Auditor) designation, and has six months of audit experience, but limited knowledge of accounting principles and techniques. According to the IIA guidance, which of the following is the most relevant reason for the chief audit executive to consider this candidate?

- A.** Other internal auditors possess sufficient knowledge of accounting principles and techniques.
- B.** The candidate's information systems knowledge and real-world experience in internal auditing.
- C.** Accounting skills can be learned over time with appropriate training.
- D.** An entry level position does not require expertise in any particular area.

Answer: B (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 405

Which of the following is the best method for testing the accuracy of a computer program's calculation of shipping charges?

- A. Select transactions from invoices with shipping charges using difference estimation.
- B. Use generalized audit software to select a monetary-unit sample of invoices that have been billed to customers.
- C. Select transactions from invoices with shipping charges using discovery sampling.
- D. Use either test data or parallel simulation to test the computer program.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 406

A technology company recently hired an entry-level internal auditor. To achieve conformance with the Standards, which of the following must the newly hired internal auditor possess?

- A. An understanding of fraud and fraud risk.
- B. IT audit expertise.
- C. Industry-specific knowledge
- D. At least one audit-related certification

Answer: A (LEAVE A REPLY)

To achieve conformance with the Standards, a newly hired entry-level internal auditor must possess an understanding of fraud and fraud risk. This knowledge is essential as it enables the auditor to recognize potential indicators of fraud during their audit activities, thereby contributing to the organization's broader fraud risk management efforts.

IIA standards which emphasize the importance of auditors understanding fraud risks as part of their professional competence requirements.

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NEW QUESTION: 407

In a retail organization, sales teams compete with each other to achieve and exceed sales targets. Each quarter, the members of the top sales team receive a bonus. In this environment, management should closely monitor for the emergence of which of the following potential risks?

- A. Risks related to employee turnover.

- B. Risks related to data manipulation.
- C. Risks related to employee competency.
- D. Risks related to not achieving sales targets.

Answer: B ([LEAVE A REPLY](#))

In a competitive retail environment where sales teams are incentivized to meet or exceed targets, there is a significant risk of data manipulation. Employees may falsify sales records, inflate numbers, or engage in other unethical behaviors to ensure they receive bonuses. This is a common issue in environments with high stakes and rewards tied to performance metrics, as the pressure to succeed can lead individuals to manipulate data to appear more successful than they actually are. Therefore, management should closely monitor data integrity and implement strong controls to detect and prevent such manipulation. References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2120 - Risk Management, and COSO's Internal Control - Integrated Framework.

NEW QUESTION: 408

Which of the following can be used to minimize employees' resentment of controls?

- A. Not using controls to achieve goals
- B. Making sure employees are exempt from participating in control creation
- C. Implementing controls without lengthy explanations of their purpose
- D. Developing general constricting controls rather than detailed ones

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 409

At what point in time can an organization conclude that the established organizational governance framework was correctly implemented?

- A. When management completes the risk assessment.
- B. When the internal auditor evaluation shows its soundness.
- C. When the organization's goals and objectives are met.
- D. When the internal auditor conducts observations and fieldwork.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 410

Which of the following would be a preventive control for helping to manage fraud in an organization?

- A. Reviews of reports to determine which issued payments lack evidence of supervisory review.
- B. A monthly review of new vendors performed by management for reasonableness.
- C. A code of conduct and whistleblower policy that must be signed by all employees annually.
- D. Bank reconciliations performed on a monthly basis by the accounting department.

Answer: (SHOW ANSWER)

NEW QUESTION: 411

An experienced internal auditor is planning an assurance engagement of the organization's sales activities. During process walkthroughs and interviews, many sales representatives expressed concerns about management's escalating demands to meet the organization's sales goals. According to the MA guidance, which of the following is the best application of due professional care in planning the engagement?

- A.** Discuss management's needs and expectations related to including the complaints in the audit scope.
- B.** Disregard the complaints because the information isn't reliable and isn't sufficient to support engagement conclusions and results.
- C.** Disregard the complaints because using them would violate the confidentiality principle.
- D.** Consider the significance of the risks related to the complaints and develop appropriate assurance procedures in work programs.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 412

Which of the following would the chief audit executive be required to disclose in the communication of quality assessment results to senior management and the board?

- A.** The cost and frequency of both internal and external assessments.
- B.** Any assumptions made by the assessment team
- C.** A potential conflict of interest of the assessment team.
- D.** The assessment team's execution plan of relevant procedures.

Answer: C (LEAVE A REPLY)

The chief audit executive is required to disclose any potential conflicts of interest of the assessment team in the communication of quality assessment results to senior management and the board. This disclosure is crucial to maintain the credibility and integrity of the quality assessment process, ensuring that the results are viewed as objective and reliable. References: IIA Standard on Quality Assurance and Improvement Program

NEW QUESTION: 413

Which of the following would be the best example of a monitoring control for a chain of restaurants?

- A.** Each restaurant manager reconciles the cash received with the food orders recorded on the computer.
- B.** All food orders must be entered through the computer, and there is segregation of duties between the food servers and the cooks.
- C.** Corporate management prepares a detailed analysis of gross margin per restaurant and investigates those showing a significantly lower gross margin.

D. Proof of bank deposit is transmitted to corporate headquarters on a daily basis.

Answer: (SHOW ANSWER)

Section: Volume C

NEW QUESTION: 414

According to NA guidance, which of the following is true regarding typical fraud schemes?

1. A diversion occurs when an employee has an undisclosed personal economic interest in a transaction that adversely affects the organization.
2. Tax evasion is intentional reporting of false or misleading information on a tax return by an organization to reduce taxes owed.
3. Skimming involves stealing cash or assets from the organization and is normally concealed by adjusting the organization's records.
4. Disbursement fraud occurs when a person causes the organization to issue a payment for fictitious goods or services.

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

Answer: D (LEAVE A REPLY)

According to typical descriptions of fraud schemes, Tax evasion (intentional reporting of false or misleading information on a tax return by an organization to reduce taxes owed) and Disbursement fraud (occurs when a person causes the organization to issue a payment for fictitious goods or services) are true statements. These are common schemes that involve intentional misrepresentation to achieve financial gain at the expense of the organization or government.

Fraud examination and prevention literature and standards from professional organizations such as the Association of Certified Fraud Examiners (ACFE) and the Institute of Internal Auditors (IIA).

NEW QUESTION: 415

Which of the following would be considered a monitoring activity in organization wide risk management?

- A. Validate the results of management's self-assessment.
- B. Perform reviews of personnel.
- C. Maintain rigorous and comprehensive documentation.
- D. Obtain authorizations and signatures.

Answer: (SHOW ANSWER)

A monitoring activity in organization-wide risk management would include validating the results of management's self-assessment. This activity ensures that risk management processes are effective and that self-assessments accurately reflect the risk status,

aligning with the role of internal audit in providing assurance over risk management activities.

COSO framework for risk management; IIA guidance on risk management.

NEW QUESTION: 416

The chief commodity trader for a large energy company learns from a friend that a competitor will likely fail its upcoming regulatory audit and will be forced to temporarily decrease production. If the information is true, the trader has short-term opportunities to make trades that will financially benefit the trader's company and will lead to a substantial increase in the trader's performance bonus. However, if the information is not true, making the trades will significantly increase the company's risk of being caught in a long position. From an ethical perspective, which of the following would be the most appropriate course of action for the trader to take?

- A.** Have another trader on staff make the trade in order to avoid a conflict of interest.
- B.** Disclose the information to the risk oversight committee but proceed with the trade to capitalize on the opportunity.
- C.** Defer the decision to management and risk the loss of the trading opportunity.
- D.** Make the trade because the company and the trader will both benefit.

Answer: [\(SHOW ANSWER\)](#)

NEW QUESTION: 417

When a risk assessment process has been used to construct an audit engagement schedule, which of the following should receive attention first?

- A.** The external auditors have requested assistance for their upcoming annual audit.
- B.** The existing accounts payable system has not been audited over the past year.
- C.** A new accounts payable system is currently undergoing testing by the information technology department.
- D.** Management has requested an investigation of possible lapping in receivables.

Answer: **D** [\(LEAVE A REPLY\)](#)

NEW QUESTION: 418

An organization's operations management is aware of existing internal control deficiencies but they lack the competency to execute internal control measures. Which of the following actions if taken by the internal audit activity is appropriate to assist operating management in achieving continuous improvement on internal controls?

- A.** Foster the importance of the control environment
- B.** Provide training on controls and on self-monitoring processes
- C.** Recommend installing an enterprisewide risk management system.
- D.** Conduct more assurance assignments on high risk areas

Answer: **B** [\(LEAVE A REPLY\)](#)

If the operations management lacks the competency to execute internal control measures, the most appropriate action by the internal audit activity to assist in achieving continuous improvement is to provide training on controls and on self-monitoring processes. This helps build management's capacity to understand and implement effective controls and fosters a culture of continuous improvement within the organization. References: IIA guidance on the role of internal audit in developing management's control competencies, highlighting training and educational support as key methods for enhancing internal control practices.

NEW QUESTION: 419

An internal audit activity maintains a quality assurance and improvement program that includes annual self-assessments. The internal audit activity includes in each engagement report a clause that the engagement is conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). Which of the following justifies inclusion of this clause in the reports?

- A.** Internal audit activity policies and engagement records provide relevant, sufficient, and competent evidence that the statement is correct.
- B.** The internal audit charter, approved by the audit committee, requires conformance with the Standards
- C.** The self-assessment results were validated by a qualified external review team three years prior.
- D.** The audit committee has reviewed the annual self-assessment results and approved the use of the clause.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 420

Which of the following statements is true regarding the importance of risk management?

- A.** Risk management ensures the ability to eliminate potential hazards to the organization.
- B.** Risk management includes consideration of potential opportunities for the organization.
- C.** Risk management aids with the establishment of appropriate key performance indicators.
- D.** Risk management increases employees' commitment and belief in strategic goals.

Answer: B (LEAVE A REPLY)

Risk management is not solely about mitigating or eliminating potential hazards but also involves identifying and seizing potential opportunities that can benefit the organization. Effective risk management allows an organization to balance risk and reward, making informed decisions that align with its strategic objectives.

This approach ensures a proactive stance in optimizing performance and achieving competitive advantage while managing risks.

The Institute of Internal Auditors (IIA) Standards and Practice Advisories.

COSO Enterprise Risk Management (ERM) Framework.

"Risk Management: Principles and Practices" by IIA.

NEW QUESTION: 421

An engagement supervisor noted that an internal auditor's personal relationship with a process owner resulted in the auditor providing a favorable and partial assessment during an audit within that process owner's area.

According to MA guidance, which of the following should be used to manage this impairment?

- A. An internal audit charter.
- B. An employee disciplinary policy.
- C. A functional audit committee.
- D. A functional reporting placement.

Answer: (SHOW ANSWER)

To manage the impairment caused by an internal auditor's personal relationship affecting audit impartiality, a functional audit committee should be utilized. The audit committee is responsible for ensuring the independence and objectivity of the internal audit function. This committee can take actions such as reassigning the audit task, reviewing the affected audit work, or instituting additional oversight for audits in that area.

The IIA's Standards on objectivity and conflicts of interest (specifically standards relating to managing impairments to independence and objectivity).

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NEW QUESTION: 422

The internal audit supervisor is reviewing the workpapers prepared by the staff. According to the Standards, which of the following statements regarding workpaper supervision is not true?

- A. Review notes of questions that arise during the review process must be retained.
- B. Workpaper review allows for staff training and development.
- C. Workpapers may be amended during the review process.
- D. Dating and intialing each workpaper provides evidence of review.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 423

According to IIA guidance, which of the following is accurate regarding the chief audit executive's (CAE's) requirement to report the results of quality assessments?

1. The CAE must report the results of external assessments at least annually.
2. The CAE must report the results of ongoing monitoring at least annually.
3. The CAE must report the results of quality assessments to senior management.
4. The CAE must report the results of quality assessments to the board.

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

Answer: D (LEAVE A REPLY)

According to IIA guidance, the chief audit executive (CAE) is required to report the results of ongoing monitoring and periodic quality assessments to both senior management and the board at least annually. This ensures transparency and allows for any necessary actions to improve the quality and performance of the internal audit activity. References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 1311 - Internal Assessments, Standard 1320 - Reporting on the Quality Assurance and Improvement Program, and Standard 1312 - External Assessments.

NEW QUESTION: 424

While reviewing first quarter sales transactions, an internal auditor discovered that 10 invoices for a new customer had not been posted into the accounts receivable subsidiary ledger. Those 10 invoices were listed in an error report automatically generated by the sales processing system. The system had rejected the invoices because the customer's account number was not found in the customer master file. In this scenario, which of the following controls was lacking?

- A.** Preventive control.
B. Detective control.
C. Directive control.
D. Corrective control.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 425

Which of the following statements describes a control weakness?

- A.** The purchasing agent in a personal capacity invests in a publicly-traded mutual fund that lists the stock of one of the company's suppliers in its portfolio.
B. Normal operational purchases fall in the range from \$500 to \$1, 000, with a single signature required for purchases over \$1, 000.
C. Pre-numbered blank purchase orders are secured within the purchasing department.

D. Purchasing procedures are well designed and are followed even when the purchasing supervisor wishes to direct otherwise.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 426

Due to extreme liquid fuel price fluctuations, management decided to designate a specific price below which liquid fuel shall not be sold to customers, but instead shall be pumped into storage tanks. Which of the following risk responses has management selected?

- A. Risk avoidance.
- B. Risk reduction.
- C. Risk acceptance.
- D. Risk transfer.

Answer: (SHOW ANSWER)

NEW QUESTION: 427

A financial services organization's board is assessing increased regulations and its effect on current industry lending practices. Which of the following committees would help the board identify and assess the effects of the increased regulations?

- A. Governance committee.
- B. Risk committee.
- C. Quality committee.
- D. Audit committee.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 428

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

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

- A. II and III only
- B. I only
- C. I, II, and III.
- D. I and III only

Answer: C (LEAVE A REPLY)

NEW QUESTION: 429

Which of the following is (he most effective way any organization can ensure proper governance over its internal controls?

- A. By adopting the best practices of similar organizations in the industry.
- B. By adjusting their internal control framework as business practices evolve.
- C. By introducing the universally accepted COSO internal control framework.
- D. By encouraging the internal audit activity to provide training on internal controls.

Answer: C (LEAVE A REPLY)

The most effective way for an organization to ensure proper governance over its internal controls is by adopting the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework. The COSO framework is widely recognized and provides a comprehensive structure for designing, implementing, and conducting internal control and assessing its effectiveness. It helps organizations to achieve their objectives in operations, reporting, and compliance by addressing components such as control environment, risk assessment, control activities, information and communication, and monitoring activities.

References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2100 - Nature of Work, and COSO's Internal Control - Integrated Framework.

NEW QUESTION: 430

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

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

Answer: A (LEAVE A REPLY)

Section: Volume B

NEW QUESTION: 431

When would on-the-job training be more effective?

- A. When participants already have a certain degree of experience and knowledge.
- B. When it makes up the largest part of the training budget.
- C. When it includes ongoing feedback and coaching from experienced team members.
- D. When it is standardized for the whole entire staff.

Answer: C (LEAVE A REPLY)

On-the-job training is more effective when it includes ongoing feedback and coaching from experienced team members. This hands-on approach provides real-time learning and adaptation, which can enhance the practical skills of the participants effectively. Feedback and coaching help in correcting mistakes and improving performance iteratively, making

the training process dynamic and directly relevant to the work environment. References:
Best practices in on-the-job training methodologies.

NEW QUESTION: 432

What is the main difference between a consulting engagement versus an assurance engagement?

- A. Internal auditors must maintain objectivity while performing their work.
- B. The objectives and scope of the engagement typically are directed by management.
- C. Internal auditors may assume management responsibilities.
- D. The nature of services provided are defined in the internal audit charter.

Answer: (SHOW ANSWER)

NEW QUESTION: 433

A global manufacturing company has three regional offices. The chief audit executive (CAE) is concerned about the cost of an upcoming external quality assessment of the internal audit activity. The last external assessment was performed six years ago.

Recently, the internal audit staff at one of the regional offices performed an internal assessment. To ensure conformance with the Standards, what is the most appropriate action for the CAE to take?

- A. Request from the audit committee an additional budget and an extension so that the external assessment could be performed next year.
- B. Review the results of the internal assessment, identify weaknesses, and implement improvements at the remaining offices.
- C. Request the regional office that performed the internal assessment to perform an assessment of the remaining offices.
- D. Request that an external assessor validate the results of the internal assessment and review the remaining offices.

Answer: D (LEAVE A REPLY)

To ensure conformance with the Standards, the most appropriate action for the CAE is to request that an external assessor validate the results of the internal assessment and review the remaining offices. This approach ensures an independent and objective evaluation, as required by IIA Standard 1312, which mandates external assessments at least once every five years.

* Option A: Delaying the external assessment does not comply with the required five-year cycle.

* Option B: Implementing improvements based on the internal assessment alone lacks external validation.

* Option C: Having a regional office perform assessments does not meet the requirement for an external assessment.

References:

* IIA Standard 1312: External Assessments.

NEW QUESTION: 434

If an engagement client disputes that a specific action or process is within the scope of the internal audit activity, what would be the most appropriate way for the internal audit activity (IAA) to respond?

- A.** Terminate the audit engagement in full because an operational audit will not be productive without the client's cooperation.
- B.** Terminate only the specific action or process with which the client disagrees and work to determine a substitute function that will not impede further IAA or the client-audit relationship.
- C.** Refer the client to the IAA's charter and the approved yearly audit plan, which includes the areas designated for audit in the current time period.
- D.** Seek the approval of senior management or the board in mediation, allowing an overseer to clarify the scope of the audit engagement for the client.

Answer: C (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 435

Which of the following documents would promote objectivity within an organization's internal audit activity?

- A.** Human resources employee handbook.
- B.** Internal audit manual.
- C.** Audit committee charter
- D.** Internal audit charter.

Answer: (SHOW ANSWER)

NEW QUESTION: 436

An internal auditor failed to identify transactions between the parent organization and a subsidiary. What is the most likely reason for the failure?

- A.** The auditor misunderstood the audit objectives.
- B.** The auditor lacked professional skepticism.
- C.** The auditor's fieldwork was not properly supervised.
- D.** The auditor lacked an understanding of the organization.

Answer: D (LEAVE A REPLY)

The most likely reason for an internal auditor failing to identify transactions between the parent organization and a subsidiary is a lack of understanding of the organization. Understanding the organizational structure, including relationships between parent and subsidiary entities, is crucial for identifying and evaluating intercompany transactions. A thorough knowledge of the organization's operations, financial arrangements, and

business processes enables auditors to recognize and properly assess such transactions during their audit engagements.

References:

- * The Institute of Internal Auditors (IIA) Standards, specifically Standard 1210 - Proficiency.
- * IIA's International Professional Practices Framework (IPPF).
- * "Internal Auditing: Assurance & Advisory Services" by IIA, Chapter on Understanding the Business and Audit Planning.

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NEW QUESTION: 437

The chief audit executive for an organization has just completed a risk assessment process, identified the areas with the highest risk, and assigned an audit priority to each. Which of the following statements is true and consistent with the International Professional Practices Framework?

- I. Items should be ranked in the order of quantifiable dollar exposure to the organization.
- II. The audit priorities should be in order of major control deficiencies.
- III. The risk assessment, though quantified, is the result of professional judgments about both exposures and probability of occurrences.

- A. I, II, and III.
- B. I only
- C. III only
- D. II and III only

Answer: C (LEAVE A REPLY)

NEW QUESTION: 438

Which of the following is accomplished by the internal audit charter?

- A. It authorizes access to records, personnel and physical properties relevant to the performance of engagements.
- B. It defines the scope of internal and external audit activities.
- C. It states the nature of the chief audit executive's administrative reporting relationship with the board.
- D. It establishes the audit committee's position within the organization.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 439

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 (LEAVE A REPLY)

Section: Volume F

NEW QUESTION: 440

Which of the following is the best way for internal auditors to demonstrate their proficiency to effectively carry out their professional responsibilities?

- A. Volunteer for audit engagements in areas or industries in which the auditor is unfamiliar
- B. Sign an annual attestation indicating that the auditor has all required competencies to perform her job effectively.
- C. Obtain appropriate professional certifications or other designations.
- D. Disclose potential impairments to independence or objectivity prior to performing an audit engagement.

Answer: C (LEAVE A REPLY)

The best way for internal auditors to demonstrate their proficiency to effectively carry out their professional responsibilities is to obtain appropriate professional certifications or other designations. These credentials, such as Certified Internal Auditor (CIA) or Certified Information Systems Auditor (CISA), are recognized indicators of an auditor's commitment to continuing education, professionalism, and adherence to industry standards.

IIA Standards for the Professional Practice of Internal Auditing and Continuing Professional Education requirements

NEW QUESTION: 441

During a complex financial compliance engagement, a senior internal auditor determines that current audit procedures are not sufficient for adequate testing. She consults with a colleague and learns that a spreadsheet application contains a helpful tool. She proceeds to use the tool to properly complete the evaluation. Which of the following best describes the core competency displayed by the senior auditor?

- A. Business acumen
- B. Persuasion and collaboration

- C. Critical thinking
- D. Communication

Answer: C (LEAVE A REPLY)

The core competency displayed by the senior auditor is critical thinking. This competency is demonstrated by her ability to identify a limitation in the current audit procedures and then effectively resolve the issue by using a new tool recommended by a colleague.

Critical thinking involves the analysis and evaluation of an issue to form a judgment, which is crucial in adapting audit techniques to meet the demands of complex engagements.

IIA's Global Internal Audit Competency Framework

NEW QUESTION: 442

In a small company with a small budget, the board and senior management asked the chief audit executive (CAE) to develop specific controls prompted by a new regulatory requirement affecting a specific process.

The CAE was also directed to report functionally to senior management. An audit engagement on this process was already set in the internal audit plan. Which of the following represents an impairment to the internal audit activity's independence?

- A. The development of controls by the CAE.
- B. The audit engagement regarding this process.
- C. The functional reporting of the CAE to senior management.
- D. The small budget.

Answer: A (LEAVE A REPLY)

The internal audit activity's independence is impaired if the chief audit executive (CAE) is involved in developing controls, as this constitutes a management function. According to IIA standards, internal auditors must remain independent and objective, avoiding roles that involve direct management responsibilities.

Developing specific controls prompted by a new regulatory requirement blurs the lines between management and audit functions, impairing the ability of the internal audit activity to later provide an objective assessment of those controls.

References:

* IIA Standard 1112: Chief Audit Executive Roles Beyond Internal Auditing

* IIA Standard 1100: Independence and Objectivity

NEW QUESTION: 443

A chief audit executive (CAE) is selecting an internal audit team to perform an audit engagement that requires a high level of knowledge in the areas of finance, investment portfolio management, and taxation.

If neither the CAE nor the existing internal audit staff possess the required knowledge, which of the following actions should the CAE take?

- A. Hire consultants who possess the required knowledge to perform the engagement.
- B. Postpone the audit until the CAE hires internal audit staff with the required knowledge.

- C. Ask the audit committee to decide the course of action.
- D. Select the most experienced auditors in the department to perform the engagement.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 444

An engagement supervisor noted that an internal auditor's personal relationship with a process owner resulted in the auditor providing a favorable and partial assessment during an audit within that process owner's area. According to MA guidance, which of the following should be used to manage this impairment?

- A. A functional reporting placement.
- B. An employee disciplinary policy.
- C. An internal audit charter.
- D. A functional audit committee.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 445

According to NA guidance, which of the following actions by the chief audit executive would best ensure that internal auditors demonstrate due professional care?

- A. Undertaking all engagements that management requests of the internal audit activity.
- B. Developing policies and procedures for the internal audit activity.
- C. Ensuring the internal audit activity is not found fallible during audit engagements.
- D. Ensuring the internal audit activity reports functionally to the board of directors.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 446

Which of the following is the best example of a computer forensic audit activity?

- A. An internal auditor recovered emails of an employee who was suspected of fraudulent activities
- B. An internal auditor compared vendor addresses to employee home addresses.
- C. An internal auditor used analytical software to trace all disbursements processed on weekends.
- D. An internal auditor tried to circumvent the logical access controls of the purchasing system.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 447

It is important for the chief audit executive to consider the level of competence of the internal audit staff because their competence influences which of the following?

- A. The cost-benefit relationship of planned audits.
- B. Proficiency needed to carry out engagements.
- C. Achievement of the objectives of internal control.

D. Quantity of the audits performed.

Answer: (SHOW ANSWER)

The level of competence of internal audit staff critically influences their proficiency in carrying out audit engagements. Competence encompasses the knowledge, skills, and other attributes necessary to perform audit tasks effectively. It affects the quality of the audits conducted and the value the audit team adds to the organization, ensuring that audits are performed with the required professional care and skepticism. References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 448

An internal auditor is testing whether employee job descriptions reflect business objectives. The internal auditor is evaluating which type of risk?

- A. Accountability.
- B. Communication.
- C. Knowledge.
- D. Reward.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 449

An internal auditor discovered fraud while performing an audit of an organization's procurement process.

Which of the following describes the greatest benefit of using forensic auditing techniques in this scenario?

- A. Enhanced capability to prevent frauds from occurring.
- B. Greater assurance that procurement frauds will be detected in a timely manner
- C. Improved capability of evaluating fraud risks within the organization.
- D. Greater understanding of fraud through better evidence collection

Answer: D (LEAVE A REPLY)

The greatest benefit of using forensic auditing techniques when fraud is discovered in an organization's procurement process is achieving a greater understanding of fraud through better evidence collection. Forensic auditing techniques are specialized procedures designed to collect, analyze, and evaluate evidence in a way that meets the standards of a legal process, which is crucial for understanding the mechanisms of fraud and potentially pursuing legal actions. References: Forensic auditing practices and literature on fraud investigation techniques.

NEW QUESTION: 450

According to IIA guidance, which of the following is ultimately responsible for seeing that the internal control system of an organization's social responsibility program is effective?

- A. All employees.
- B. Board of directors.

- C. Internal audit activity.
- D. Senior management

Answer: (SHOW ANSWER)

NEW QUESTION: 451

An internal auditor is conducting an engagement in the accounts payable department, which includes expressing an opinion at the micro level. According to IIA guidance, which of the following statements is true regarding micro-level opinions?

1. They are most effective when using a combination of current and prior engagement findings to draw conclusions.
2. They typically are based on defined procedures such as those found in an accounts payable reconciliation process.
3. They are discrete and not normally shared with senior management or the board.
4. They can rely on evidence taken from the work of other assurance activities across the organization.

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

Answer: (SHOW ANSWER)

Section: Volume E

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NEW QUESTION: 452

What should the chief audit executive do when the internal audit activity is found to be in nonconformance with the Code of Ethics or the Standards?

- A. Assign competent staff to the area under audit to remediate the nonconformance.
- B. Determine how the deviation impacted the overall scope of the internal audit activity.
- C. Meet with the board to gain an understanding of the board's expectations.
- D. Communicate the matter to the board at the time of the next external assessment.

Answer: D (LEAVE A REPLY)

When the internal audit activity is found to be in nonconformance with the Code of Ethics or the Standards, the chief audit executive should communicate this matter to the board at

the time of the next external assessment. This ensures that the board is aware of the nonconformance and can take appropriate actions to address the issue, maintaining the integrity and accountability of the internal audit function.

IIA standards on governance, which require the chief audit executive to report significant issues related to nonconformance with professional standards and the Code of Ethics to the board and senior management.

NEW QUESTION: 453

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: A (LEAVE A REPLY)

According to IIA guidance, the internal audit activity should refrain from indicating conformance with the Standards until all areas of nonconformance identified in a quality assessment have been addressed and the chief audit executive has confirmed this to the audit committee. This ensures that the internal audit activity only claims conformance when it fully meets the Standards, maintaining the credibility of the audit function.

Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, and guidance on external quality assessments.

NEW QUESTION: 454

Which of the following risk management activities is most appropriate for an internal auditor to undertake?

- A.** Impose risk management processes.
- B.** Coordinate risk management activities.

- C. Implement risk responses on management's behalf.
- D. Review the management of key risks.

Answer: (SHOW ANSWER)

Section: Volume E

NEW QUESTION: 455

Which of the following is a benefit from reduced testing during a particular phase of an audit engagement?

- A. The size of the internal audit activity can be reduced.
- B. Additional audit hours are available for pursuing other engagement objectives.
- C. There is less concern about assessing inherent risk.
- D. The level of planned audit risk is lowered.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 456

Which of the following statements is true regarding the role of the internal audit activity in the organization's risk management process?

- A. The internal audit activity should not be responsible for developing the organization's risk management framework, even with appropriate safeguards.
- B. The internal audit activity is typically responsible for alerting operational management to emerging risks and changes in regulatory scenarios
- C. The internal audit activity may coach management on risk response scenarios if safeguards have been implemented.
- D. The internal audit activity should avoid giving assurance regarding the accuracy of risk evaluations if safeguards have not been implemented.

Answer: C (LEAVE A REPLY)

The correct statement regarding the role of the internal audit activity in the organization's risk management process is that the internal audit activity may coach management on risk response scenarios if appropriate safeguards have been implemented. This coaching role helps management understand and address risks effectively while maintaining the audit function's objectivity and independence. References: The IIA's guidance on the role of internal auditing in risk management and the standards regarding objectivity and consulting.

NEW QUESTION: 457

Which of the following would be the least desirable criteria against which to judge current operations of a company's treasury function?

- A. Company policies and procedures delegating authority and assigning responsibilities.
- B. Codification of best practices of the treasury function in relevant industries.
- C. The operations of the treasury function as documented during the last audit engagement.

D. Finance textbook illustrations of generally accepted good treasury function practices.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 458

What is the main difference between a consulting engagement versus an assurance engagement?

- A. The nature of services provided are defined in the internal audit charter.
- B. Internal auditors must maintain objectivity while performing their work.
- C. The objectives and scope of the engagement typically are directed by management.
- D. Internal auditors may assume management responsibilities.

Answer: C ([LEAVE A REPLY](#))

In a consulting engagement, the internal auditors collaborate with management to determine the objectives and scope. In contrast, for assurance engagements, the internal audit activity sets the objectives and scope independently to provide an unbiased assessment. References:

- * IIA Standard 2010: Planning.
- * IIA Practice Guide: Consulting Services.

NEW QUESTION: 459

According to IIA guidance, which of the following is a required aspect of an internal audit charter?

- A. Reporting relationships
- B. Management approval
- C. Quarterly assessment
- D. Independent review

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 460

Which of the following internal control weaknesses would an auditor most likely detect while reviewing a flowchart that depicts the purchasing function of an organization?

- A. Purchasing policies have not been updated.
- B. The organization is not taking advantage of quantity discounts available from its suppliers.
- C. Payments to suppliers are made before goods are received.
- D. Payments for goods received have not been authorized at the appropriate level.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 461

Which of the following would the chief audit executive be required to disclose in the communication of quality assessment results to senior management and the board?

- A. The assessment team's execution plan of relevant procedures.

- B. The cost and frequency of both internal and external assessments.
- C. Any assumptions made by the assessment team
- D. A potential conflict of interest of the assessment team.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 462

Which of the following results from computer assisted audit techniques provides the most significant indication that additional audit work is needed?

- A. Several exact matches were found when vendor and employee addresses were compared.
- B. The sum of credit entries on the bank statement did not equal the sum of collections for the same period.
- C. Sorting the check register file by vendor name identified missing sequences of check numbers.
- D. Matching the accounts payable transaction file with the purchase order request file resulted in many differences between the person requesting the purchase order and the person authorizing payment.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 463

An internal audit activity encounters a scope limitation from senior management that will affect its ability to meet its goals and objectives for a potential engagement client. The nature of the scope limitation should be.

- A. Noted in the audit workpapers, but the engagement should be carried out as scheduled, with any necessary adjustments made based on the scope limitation.
- B. Communicated to the external auditors so that they can investigate the area in more detail.
- C. Communicated, preferably in writing, to the board.
- D. Communicated to management, stating that the limitation will not be accepted because it would impair the audit activity's independence.

Answer: C ([LEAVE A REPLY](#))

Section: Volume B

NEW QUESTION: 464

Which of the following is a weakness of observation as audit evidence?

- A. It cannot be used to test the completeness assertion.
- B. It cannot be used to test the existence assertion.
- C. It cannot be used to test the occurrence assertion.
- D. It cannot be relied upon because the evidence is not persuasive.

Answer: A ([LEAVE A REPLY](#))

Section: Volume F

NEW QUESTION: 465

During an assurance engagement internal auditors interview operational management to gather and evaluate information. Which approach is most important for internal auditors to be able to listen effectively to interviewees in the given situation?

- A. Make an audio recording of the interview
- B. Interrupt with questions during unclear statements
- C. Express interest by asking follow-up questions
- D. Avoid periods of silence

Answer: C (LEAVE A REPLY)

During interviews, it is crucial for internal auditors to demonstrate active listening and engagement with the interviewee to gather comprehensive and accurate information. Expressing interest by asking follow-up questions is an effective way to clarify and delve deeper into responses, ensuring a thorough understanding of the topics discussed. This approach not only helps in collecting valuable data but also in building rapport and trust with interviewees. References: The Institute of Internal Auditors (IIA) - Practice Advisories on Effective Interviewing Techniques

NEW QUESTION: 466

Which of the following would be considered a violation of The IAf'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 (LEAVE A REPLY)

According to the IIA's mandatory guidance on independence, allowing senior management to have influence over the CAE's salary adjustments could potentially compromise the independence of the internal audit function. The board should independently approve the CAE's salary without seeking senior management's recommendation to maintain the internal audit function's independence.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, specifically standards related to independence.

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NEW QUESTION: 467

With regard to the internal audit activity's quality assurance and improvement program, which of the following topics would the chief audit executive include on the quarterly board meeting agenda?

- A. The number and qualifications of internal audit staff members assigned to perform internal assessments during the year.
- B. The compensation structure of the qualified assessment team.
- C. The scope and frequency of both internal and external quality assessments.
- D. The list of audit engagements that will be assessed during the year.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 468

Which of the following actions by the internal audit activity requires disclosure to the board of nonconformance with the Standards?

- A. The internal audit activity failed to consider risk when conducting a review of a department
- B. An internal auditor was assigned to an engagement in an area where she previously worked more than 10 years ago
- C. The internal audit activity performed an engagement with limited scope due to lack of knowledge
- D. The internal audit activity did not complete an external assessment within the last seven years

Answer: (SHOW ANSWER)

NEW QUESTION: 469

Which the following activities should be performed by the internal audit activity to facilitate an effective relationship with the audit committee?

1. Periodically report about the accounting standards followed by the organization.
2. Provide assurance to the audit committee that its charter, activities, and processes are appropriate.
3. Ensure that the role and activities of the internal audit activity are clearly understood and responsive to the needs of the audit committee.
4. Maintain open and effective communications with the audit committee.

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

Answer: (SHOW ANSWER)

NEW QUESTION: 470

An internal audit charter should do which of the following?

- A. Define the scope of internal audit activities.
- B. Outline the schedule of future audits.
- C. Establish the size of the internal audit activity.
- D. Communicate the internal audit activity's goals.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 471

Which of the following statements correctly describes how workpaper standards can improve the efficiency of internal audit operations?

- A. They require supervisors to provide written confirmation of the workpapers they review.
- B. They grant external parties approved by management access to workpapers.
- C. They mandate the workpaper retention period.
- D. They allow the design and content to vary depending on the nature of the engagement.

Answer: D (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 472

During the planning phase of an audit of suspected overbilling on contracts for security services, an internal auditor should perform all of the following except:

- A. Obtain a copy of the contract between the two organizations.
- B. Interview an official of the security services company to determine the cause of recent increases in billings for services.
- C. Prepare an engagement program.
- D. Interview the manager who requested the audit engagement.

Answer: (SHOW ANSWER)

NEW QUESTION: 473

A dental insurance provider has implemented an electronic claim submission process and is concerned that dentists are submitting claims for services that were not provided. Which of the following control procedures would be most effective in preventing this type of fraud?

- A. Develop an integrated test facility and submit false claims to verify that the system is detecting such claims on a consistent basis.

B. Send confirmations to the dentists requesting them to confirm the exact nature of the claims submitted to the insurance provider.

C. Develop a program that identifies procedures performed on an individual which are either in excess of expectations based on the age of the insured or are similar to other procedures recently performed on the individual.

D. Require all submitted claims to be followed by a signed statement by the dentist testifying to the fact that the claimed procedures were performed.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 474

The board of a newly established organization was discussing the contents of the draft internal audit charter. One board member suggested adding to the charter an obligation for the internal audit activity to develop controls in business procedures. The board member explained that the new organization needs professional-level developers, internal auditors have the necessary skills and competencies, and the internal audit activity is well positioned to assume this responsibility. Which of the following would be a potential concern if the board member's suggestion is adopted?

A. Due professional care.

B. Internal audit objectivity.

C. Risk management assurance.

D. Professional development.

Answer: (SHOW ANSWER)

According to the standards and practices of internal auditing, the internal audit function is primarily responsible for providing an independent and objective assurance and consulting service aimed at adding value and improving an organization's operations. If internal auditors were tasked with developing controls in business procedures, it could compromise their objectivity. Objectivity is crucial as it allows auditors to carry out audits impartially and without bias. Involvement in control creation could lead internal auditors to later audit their own work, which is a conflict of interest and undermines the principle of independence and objectivity as set by the Institute of Internal Auditors (IIA).References: The Institute of Internal Auditors (IIA)

- International Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 475

Which of the following is (the most effective way any organization can ensure proper governance over its internal controls?

A. By adopting the best practices of similar organizations in the industry.

B. By adjusting their internal control framework as business practices evolve.

C. By introducing the universally accepted COSO internal control framework.

D. By encouraging the internal audit activity to provide training on internal controls.

Answer: C (LEAVE A REPLY)

The most effective way for an organization to ensure proper governance over its internal controls is by adopting the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework. The COSO framework is widely recognized and provides a comprehensive structure for designing, implementing, and conducting internal control and assessing its effectiveness. It helps organizations to achieve their objectives in operations, reporting, and compliance by addressing components such as control environment, risk assessment, control activities, information and communication, and monitoring activities. References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2100 - Nature of Work, and COSO's Internal Control - Integrated Framework.

NEW QUESTION: 476

A whistleblower notified internal audit of a conflict of interest between an organization's employee and a major supplier. Which of the following steps should be undertaken first?

- A.** Interview the employee identified by the whistleblower.
- B.** Attain an understanding of the employee's role, responsibilities, and relationship with the supplier.
- C.** Notify senior management, the board, and the external auditor about the alleged fraud.
- D.** Review all the orders issued to the supplier to investigate potential fraud.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 477

This chief audit executive (CAE) engaged an internal auditor to consult on an organization's complex information technology system. Shortly after beginning the engagement, the auditor unexpectedly resigned. Unfortunately, this auditor was the only available auditor with the necessary expertise. The CAE will not be able to hire someone with similar expertise in time to meet a regulatory deadline.

Which of the following would be the best course of action for the CAE to take?

- A.** Ask that a senior member of the organization's IT department with the required systems expertise join the audit team to assist in completing the engagement.
- B.** Delay the engagement and inform the board of the situation, asking them to provide acceptable alternatives for completing the engagement.
- C.** Remove the planned engagement from the audit plan and explain to senior management the problems with moving forward without an auditor with the
- D.** Continue with the engagement in order to meet the regulatory deadline, but highlight areas in the final report that might need to be revised in the future.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 478

In order to exercise due professional care as defined in the International Professional Practices Framework, an internal auditor should:

- I. Consider the probability of significant noncompliance in each audit engagement.
- II. Perform assurance procedures with sufficient care to ensure that all risks are identified.
- III. Weigh the cost of assurance against the benefits.

- A. I and III only
- B. I and II only
- C. II and III only
- D. I, II, and III.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 479

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 (LEAVE A REPLY)

NEW QUESTION: 480

The organization implements several controls to address the risk that employees might submit false claims for travelling expenses. The controls include requiring claims to be approved by a direct supervisor, providing clear guidance regarding which expenses can be included, automatic calculations of daily allowance, and notifying employees that the submission of false claims will be investigated. Which of the described controls is irrelevant to the risk?

- A. The automatic calculations of daily allowance.
- B. The requirement of a supervisor's approval.
- C. The investigations into false claims.
- D. The availability of clear guidance.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 481

An organization's chief audit executive (CAE) has been asked to monitor and report on any violations of the organization's code of conduct. The CAE should:

- A. Develop specific procedures to ensure that the code is clearly communicated to all employees.
- B. Lead the committee responsible for the oversight of the code.
- C. Participate in an advisory capacity on the committee that adjudicates any violations.
- D. Review and adjudicate all complaints.

Answer: C (LEAVE A REPLY)

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NEW QUESTION: 482

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. Authorizing an investigation of an unsafe product.
- C. Discussing periodic reports of ethical breaches.
- D. Intervening during an audit involving ethical wrongdoing.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 483

The chief audit executive (CAE) has hired a new internal auditor who was immediately assigned to a procurement function audit. Because the new auditor's name is similar to that of the procurement manager, some staff members think the two are related, although they are not. Which of the following actions is most appropriate for the CAE to take?

- A. Take no action, as there is no impairment to independence.
- B. Remove the new internal auditor from the engagement team.
- C. Discuss the matter with the appropriate personnel to alleviate concerns.
- D. Closely supervise the new auditor and carefully review his work.

Answer: C (LEAVE A REPLY)

The most appropriate action for the Chief Audit Executive (CAE) to take in the scenario where staff might mistakenly believe the new internal auditor is related to the procurement manager is to discuss the matter with the appropriate personnel to alleviate concerns. This action ensures that concerns about independence and objectivity are addressed transparently, maintaining trust in the internal audit function. References: The IIA's Code of Ethics and standards on objectivity, which stress the importance of maintaining and demonstrating impartiality in all audit engagements.

NEW QUESTION: 484

An internal auditor for a large bank is reviewing the collectability of a loan that is secured by real property. The best evidence of the loan's collectability would be:

- A. A properly completed and signed loan application form.
- B. A recent independent appraisal of the value of the real property.
- C. A document showing the loan committee's approval of the loan.
- D. The borrower's confirmation of the loan balance.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 485

During a procurement process audit the internal audit activity undertakes a fraud risk assessment and considers a range of possible fraud scenarios within the process. Which of the following scenarios constitutes a pressure to commit fraud?

- A. An employee believes his poor compensation package justifies engaging in unethical behavior.
- B. The head of the department is the only signatory to purchase orders issued to third party contractors.
- C. Some employees strongly believe monetary gifts from vendors is a means of saving for life after employment.
- D. One of the employees was found to have an obsession with expensive jewelry

Answer: A (LEAVE A REPLY)

In the context of fraud risk assessment, the "fraud triangle" framework is commonly used to understand the factors that contribute to fraudulent behavior. The fraud triangle consists of three components: pressure, opportunity, and rationalization.

Pressure to commit fraud can arise from various personal or financial situations that create stress or a perceived need to engage in fraudulent activities. An employee believing that a poor compensation package justifies engaging in unethical behavior represents a form of financial pressure, which is one of the key elements in the fraud triangle. This scenario indicates that the employee feels driven to commit fraud due to dissatisfaction with their remuneration, which constitutes a pressure to commit fraud.

IIA Practice Guide: Fraud and Internal Audit

COSO Fraud Risk Management Guide

NEW QUESTION: 486

In order to save time, an audit manager no longer required that a standard internal control questionnaire be completed for each audit engagement. Does this represent a violation of the Standards?

- A. No, because auditors may omit necessary procedures if there is a time constraint, based on audit judgment.
- B. Yes, because internal control should be evaluated on every engagement and the internal control questionnaire is the most efficient method to do so.

C. No, because auditors are not required to complete internal control questionnaires on every engagement.

D. Yes, because internal control should be evaluated on every engagement and the internal control questionnaire is the mandated approach to evaluate controls.

Answer: (SHOW ANSWER)

NEW QUESTION: 487

According to The IIA's Code of Ethics, which of the following scenarios offers the best example of violating the principle of integrity?

A. An internal audit manager collaborates with senior management to provide misleading information to government authorities.

B. An internal audit manager provides sample audit reports and workpapers to a friend without obtaining prior approval

C. An internal audit manager carries out a technical audit request without seeking expert opinion, despite a lack of the requisite skills.

D. An internal audit manager assigned to audit a sales process failed to reveal that the process owner is a relative

Answer: D (LEAVE A REPLY)

The scenario where an internal audit manager fails to disclose a conflict of interest by not revealing that the process owner being audited is a relative is a clear violation of the integrity principle outlined in The IIA's Code of Ethics. Integrity demands that internal auditors disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review or conceal unlawful practices.

The IIA's Code of Ethics

NEW QUESTION: 488

According to IIA guidance, which of the following is true of the internal audit activity's quality assurance and improvement program?

1 Monitoring the internal audit activity's performance must be ongoing

2 All aspects of the internal audit activity should be evaluated

3 The requirement for external assessments can be satisfied through self-assessments that are validated by an independent external party

4 The review of assurance services should be the primary focus

A. 1 and 2 only

B. 2 and 3 only

C. 1, 2 and 3

D. 1 3 and 4

Answer: C (LEAVE A REPLY)

According to IIA guidance on the quality assurance and improvement program:

* Monitoring of the internal audit activity's performance must indeed be ongoing to ensure continuous improvement.

- * All aspects of the internal audit activity should be evaluated, not just selected parts.
- * The requirement for external assessments can be satisfied through self-assessments that are validated by an independent external party, providing a cost-effective way to meet external assessment requirements.

Thus, options 1, 2, and 3 are all correct, making C the best choice. References: IIA Standard 1300 - Quality Assurance and Improvement Program

NEW QUESTION: 489

According to MA guidance, which of the following best describes how often the chief audit executive should review the quality assurance and improvement program of the internal audit activity?

- A. Whenever the business objectives of the organization change
- B. Just prior to an external assessment of the internal audit activity
- C. At the completion of each engagement.
- D. Progressively on a day-to-day basis

Answer: D (LEAVE A REPLY)

According to IIA guidance, the chief audit executive should review the quality assurance and improvement program of the internal audit activity progressively on a day-to-day basis. This continual review ensures that the internal audit activity remains effective and aligned with the organization's objectives and adheres to professional standards, thereby maintaining and enhancing the value provided by the audit function.

IIA standards related to the quality assurance and improvement program, which advocate for ongoing monitoring to ensure the effectiveness of the internal audit activity.

NEW QUESTION: 490

An internal auditor is performing analytical reviews as part of an audit of a supermarket's merchandising department. Because the economy has declined since midyear, the auditor can expect to encounter which of the following?

- A. Higher inventory turnover.
- B. Higher operating margin.
- C. Lower obsolete stock disposal.
- D. Lower sales volume.

Answer: D (LEAVE A REPLY)

Section: Volume F

NEW QUESTION: 491

Which of the following would be outside the scope of acquiring and developing human resources for an internal audit department?

- A. Requiring audit staff to participate in continuing education activities.
- B. Writing job descriptions for audit staff, audit managers, and other auditing positions.

C. Conducting individual counseling sessions regarding professional development and performance.

D. Evaluating auditors' compliance with standards and level of audit effectiveness.

Answer: (SHOW ANSWER)

Section: Volume D

NEW QUESTION: 492

An internal auditor is planning an operational audit of the accounts payable function. Which of the following best mitigates the risk of the organization being a victim of disbursement fraud by employees?

A. The accounts payable function is properly segregated from the cash custody function.

B. Accounts payable payment records are checked against supplier invoices.

C. Accounts payable are aged by vendors.

D. The accounts payable trial balance is reconciled to the general ledger.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 493

In which of the following ways can a chief audit executive demonstrate to the board that the internal audit activity collectively possesses all of the skills needed to complete its annual goals?

A. Involve board members in hiring activities and request advice.

B. Require all internal audit staff to complete the same training course on a general audit subject,

C. Require senior auditors to obtain a professional certification.

D. Provide a competency assessment of the internal audit staff.

Answer: (SHOW ANSWER)

The most effective way a chief audit executive (CAE) can demonstrate to the board that the internal audit team has the necessary skills to achieve its annual goals is through a competency assessment. This assessment measures and documents the collective skills and knowledge within the internal audit activity, ensuring they align with the requirements of the audit plan and the organization's objectives. Competency assessments can identify gaps and provide a basis for training and development, making it an essential tool for demonstrating capability. References:

* The Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 494

An internal auditor is performing analytical reviews as part of an audit of a supermarket's merchandising department. Because the economy has declined since midyear, the auditor can expect to encounter which of the following?

A. Lower sales volume.

- B. Lower obsolete stock disposal.
- C. Higher operating margin.
- D. Higher inventory turnover.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 495

Which of the following would be the most suitable internal control framework for an organization to adopt?

- A. A framework that specifies common best practices for an organization to evaluate and benchmark.
- B. A framework that specifies correct and incorrect business methodologies.
- C. A framework with precise specifications for how controls and processes should be employed.
- D. A framework that offers step-by-step guidance for remedial action for all organization types.

Answer: A (LEAVE A REPLY)

The most suitable internal control framework for an organization is one that specifies common best practices for the organization to evaluate and benchmark. This type of framework provides a structured approach to assess and enhance their control environment by aligning it with recognized best practices, facilitating continuous improvement, and enabling benchmarking against industry standards or peer organizations.

References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 496

With regard to the internal audit activity's quality assurance and improvement program, which of the following must be reported to the board?

- A. A statement of independence of the organization's internal auditors.
- B. Meeting minutes with the assessment team, if key risks were identified and discussed.
- C. Frequency of the quality assessments being performed.
- D. Summary of previous internal assessments undertaken.

Answer: A (LEAVE A REPLY)

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NEW QUESTION: 497

While conducting an audit, an internal auditor notices an unusual increase in sales among a small number of units within the organization. The units also experienced persistent negative cash flows despite reported earnings and earnings growth. Which type of fraud do the auditor's findings most likely indicate?

- A. Employee collusion with customer organizations.
- B. Fictitious revenues.
- C. Inventory theft.
- D. Improper asset valuation.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 498

Which of the following best demonstrates conformance with the Standards regarding the internal audit activity's purpose, authority, and responsibility?

- A. Discussion and formal presentation of the internal audit charter to the board of directors
- B. Certification by external auditors on the purpose, authority and responsibility of the internal audit activity
- C. Approval of senior management that the internal audit activity is functioning as originally designed
- D. Self-assessment of the internal audit activity completed by the chief audit executive

Answer: A (LEAVE A REPLY)

The best demonstration of conformance with the Standards regarding the internal audit activity's purpose, authority, and responsibility is the discussion and formal presentation of the internal audit charter to the board of directors. This ensures that the board is fully aware of and agrees with the internal audit's defined role within the organization, thereby establishing a clear basis for its operations and scope of work. References:

The IIA's International Standards for the Professional Practice of Internal Auditing on Charter requirements.

NEW QUESTION: 499

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. 2, 3, and 4

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

Answer: (SHOW ANSWER)

NEW QUESTION: 500

Which of the following would a chief audit executive most likely use to identify a need for improvement in a staff internal auditor's business acumen?

- A. A control self-assessment.
- B. A quality assessment review.
- C. A peer review of the internal audit activity.
- D. An internal audit client survey.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 501

Which of the following is the primary engagement responsibility of an entry-level internal auditor?

- A. Leadership.
- B. Documentation.
- C. Analysis.
- D. Reporting.

Answer: B (LEAVE A REPLY)

For entry-level internal auditors, the primary engagement responsibility typically involves documentation.

This includes accurately and thoroughly documenting audit evidence and findings, which is essential for supporting the audit's conclusions and for review by more senior auditors.

This task is fundamental for ensuring that audit work is recorded and traceable, aligning with the IIA's standards on performance (specifically, documenting information to support conclusions and engagement results).

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 502

Which of the following should be incorporated in a risk management policy?

- I. Boundaries and limit structures.
- II. Requirements for reporting risk.
- III. Risk authorities.

- A. I and II only
- B. I, II, and III.
- C. I and III only
- D. II and III only

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 503

While preparing the audit plan for an automobile manufacturing company, the chief audit executive (CAE) noted that the company's engineering department received a high risk ranking. However, the internal audit activity is understaffed, and current staff do not possess the necessary skills to adequately assess the effectiveness of the engineering department. What is the most appropriate course of action for the CAE to take?

- A.** Include the engineering department on the audit plan, use the available internal audit resources to conduct the review, and exclude procedures that cannot be adequately assessed.
- B.** Advise management to accept the assessed risk until the internal auditors are able to review the area adequately.
- C.** Recruit internal auditors with the required competencies and wait until they are employed before including this audit on the internal audit plan.
- D.** Proceed with a review of the engineering department but supplement the internal audit team with nonauditors from an external engineering company who have the required skills to assist

Answer: ([SHOW ANSWER](#))

The most appropriate course of action for the CAE when facing a lack of internal audit staff with necessary skills to audit a high-risk area, like the engineering department, is to supplement the internal audit team with external experts who possess the required competencies. This approach ensures that the audit can be conducted effectively and comprehensively, allowing for an accurate assessment of risks and controls in the engineering department without delaying the review until new auditors can be hired and trained. References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 504

Which of the following would be the most important consideration by the internal audit activity when selecting employees to perform an internal quality assessment?

- A.** The nature of their regular duties and responsibilities.
- B.** Their understanding of auditing standards.
- C.** Previous experience working with the internal audit activity.
- D.** Their reporting line within the organization.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 505

Which of the following is least likely to enhance the independence of an internal audit activity?

- A.** Adherence to the organization's position classification structure.

- B. A direct reporting relationship to the audit committee.
- C. The existence of a formal written charter for the internal audit activity.
- D. Submission of an annual internal audit work plan to the audit committee.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 506

Which of the following roles, if undertaken by an internal auditor, would have the greatest potential for conflict with the Standards regarding objectivity?

- A. Product development team consultant.
- B. External audit liaison.
- C. Ethics advocate.
- D. IT system designer.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 507

The organization's internal audit charter was last updated six years ago. To update the charter, which of the following actions is most appropriate for the chief audit executive to take?

- A. Wait for the next external assessment and address all of the missing information in the charter based on the recommendations from the external assessment team.
- B. Identify an individual within the internal audit activity who has in-depth knowledge of mandatory IIA guidance elements to address any gaps or areas of the current version of the charter that could be improved.
- C. Use an internal audit charter template from another organization that operates within the same industry.
- D. Perform a review of IIA guidance to become acquainted with the latest mandatory elements prior to updating the charter

Answer: B (LEAVE A REPLY)

NEW QUESTION: 508

An internal auditor is updating the risk register for risks identified during a recent organizational risk assessment. According to the Standards, which of the following would the auditor include in the risk register?

- A. Discussions with senior management relating to a new revenue stream.
- B. Management's acceptance of inadequate controls for cybersecurity risk.
- C. Project manager planned hours versus time spent for all prior year projects
- D. Mitigating controls implemented by the engagement supervisor

Answer: B (LEAVE A REPLY)

NEW QUESTION: 509

Which of the following would provide the most reliable information on the risk associated with an auditable activity?

- A. Past audit findings and instances of management failures.
- B. Management assessment and corroboration by the internal audit activity.
- C. Event scenarios with regression analysis.
- D. Consequences and economic predictability of loss.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 510

An organization's chief audit executive (CAE) has been asked to monitor and report on any violations of the organization's code of conduct. The CAE should:

- A. Participate in an advisory capacity on the committee that adjudicates any violations.
- B. Review and adjudicate all complaints.
- C. Develop specific procedures to ensure that the code is clearly communicated to all employees.
- D. Lead the committee responsible for the oversight of the code.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 511

Which of the following actions would best help the internal audit activity promote continuous improvement in control effectiveness within the organization?

- A. Determining whether management measures and monitors the costs and benefits of controls.
- B. Providing training on controls and ongoing self-monitoring processes.
- C. Developing flowcharts to obtain information about control design adequacy.
- D. Identifying objectives and the risks involved in achieving them.

Answer: A (LEAVE A REPLY)

To promote continuous improvement in control effectiveness, it is crucial that the internal audit activity evaluates whether management is effectively measuring and monitoring the costs and benefits of controls.

This ensures that controls are not only designed appropriately but are also operating efficiently and providing the intended value to the organization. This proactive evaluation encourages continual refinement and adjustment of controls based on their effectiveness and efficiency.

IIA guidance on assessing and improving control effectiveness.

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NEW QUESTION: 512

Which of the following situations presents the lowest risk of impairing an internal audit activity's independence?

- A. Senior management has control over the internal audit activity's budget
- B. Senior management has the authority to terminate the chief audit executive
- C. Senior management provides feedback on the scope of the internal audit plan.
- D. Senior management limits the internal audit activity's access to the board

Answer: (SHOW ANSWER)

NEW QUESTION: 513

Which of the following strategies would be the most effective to share an organization's risk of losses through foreign currency transactions related to the accounts payable process?

- A. Using a hedging strategy.
- B. Implementing controls to follow up on deviations.
- C. Purchasing liability insurance.
- D. Purchasing foreign currency reserves.

Answer: A (LEAVE A REPLY)

The most effective strategy to manage the risk of losses from foreign currency transactions related to the accounts payable process is using a hedging strategy. Hedging involves using financial instruments or market strategies to offset potential losses in investments. In the context of foreign currency transactions, hedging can protect against adverse movements in exchange rates, thereby stabilizing cash flows and reducing the unpredictability of foreign currency expenses.

Financial management practices and risk management strategies.

NEW QUESTION: 514

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 (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 515

An internal auditor has suspicions that some fictitious vendors have been created in the organization's computer system. Which of the following would be the best technique to detect this fraud?

- A. Review for duplicate invoice numbers, duplicate dates, and duplicate amounts
- B. Run checks to find matches between vendor and employee addresses
- C. Check for recurring requests for refunds where invoices are paid twice
- D. Review for unexplained increases in inventory

Answer: (SHOW ANSWER)

The best technique to detect fictitious vendors in the organization's computer system is to run checks to find matches between vendor and employee addresses. This method is effective because fictitious vendors often have addresses that match those of employees creating them. This kind of analysis targets the direct linkage between fraudulent activities and internal entities, which is a common red flag in vendor fraud scenarios. References: Association of Certified Fraud Examiners (ACFE) - Techniques for Fraud Detection

NEW QUESTION: 516

Which of the following circumstances would most likely be considered a potential red flag for fraud by the internal audit activity?

- A. The monthly payroll reports are not vetted to ensure terminated employees have been removed from the payroll system
- B. The volume of nonroutine journal entries has steadily increased over time.
- C. The database of approved suppliers has not been reviewed the last year
- D. The recent employee survey indicates that some employees remain unaware of the organization's whistleblower hotline.

Answer: A (LEAVE A REPLY)

The most likely potential red flag for fraud by the internal audit activity in the given scenarios is when monthly payroll reports are not vetted to ensure terminated employees have been removed from the payroll system. This situation can lead to payments to non-existent ("ghost") employees, a common fraud scheme, and represents a significant control weakness that could be exploited for fraudulent purposes. References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 517

While preparing the audit plan for an automobile manufacturing company, the chief audit executive (CAE) noted that the company's engineering department received a high risk ranking. However, the internal audit activity is understaffed, and current staff do not possess the necessary skills to adequately assess the effectiveness of the engineering department. What is the most appropriate course of action for the CAE to take?

- A. Include the engineering department on the audit plan, use the available internal audit resources to conduct the review, and exclude procedures that cannot be adequately assessed.

- B.** Proceed with a review of the engineering department but supplement the internal audit team with nonauditors from an external engineering company who have the required skills to assist
- C.** Advise management to accept the assessed risk until the internal auditors are able to review the area adequately.
- D.** Recruit internal auditors with the required competencies and wait until they are employed before including this audit on the internal audit plan.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 518

During a routine audit of a customer service hotline, an internal auditor noticed that an unusually high number of customer complaints pertained to payments not being applied to the customers' accounts. Which of the following would most likely be the reason for the high volume of complaints?

- A.** Submission of fraudulent expense reports.
- B.** An ineffective customer service department.
- C.** Check tampering by an employee.
- D.** Poor controls in the invoice approval processes.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 519

The internal audit activity is asked to review the effectiveness of controls around the disposal of chemical waste. However, the internal auditors on staff lack the necessary skills to conduct this review. Which of the following would be the most appropriate approach?

- A.** A nonaudit employee from the chemical disposal area may share his expertise with the audit team, provided the internal audit manager conducts a detailed review of all engagement work performed.
- B.** An internal auditor who recently attended a three-day workshop on chemical waste disposal, and therefore has the most knowledge on the topic, should lead the engagement.
- C.** A team of the most knowledgeable auditors could be assembled and use the engagement work program from the previous year to gather additional insight regarding recommended audit procedures.
- D.** A team of available internal auditors should be assembled and should consult with an external nonaudit expert on chemical waste disposal to plan and conduct the engagement.

Answer: (SHOW ANSWER)

NEW QUESTION: 520

The percentage of orders that are rush orders and the percentage of returns to total orders are examples of which of the following types of control activities?

- A.** Quality control monitoring.

- B. Direct functional management.
- C. Benchmarking.
- D. Performance indicators.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 521

Management has requested that the internal audit activity perform a consulting engagement to review fraud prevention programs. Which of the following is a Standards requirement to accept and perform the consulting engagement?

- A. Internal auditors must incorporate knowledge gained from the consulting engagement into the evaluation of risks and controls in future assurance engagements.
- B. The internal audit activity must be free from interference in determining the scope of the consulting engagement.
- C. Internal auditors assigned to the consulting engagement must have no previous responsibility for fraud prevention programs.
- D. The internal audit activity must not provide future assurance services related to fraud prevention programs until at least one year has lapsed.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 522

According to the 11A Code of Ethics, which of the following is required with regard to communicating results?

- A. The internal auditor should present material information to appropriate personnel within the organization without revealing confidential matters that could be detrimental to the organization.
- B. The internal auditor should disclose all material information obtained by the date of the final engagement communication.
- C. The internal auditor should obtain all material information within the established time and budget parameters.
- D. The internal auditor should reveal material facts that could potentially distort the reporting of activities under review.

Answer: B (LEAVE A REPLY)

According to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards)

2420.A1, it is stated that the internal auditor must disclose all material information obtained by the date of the final engagement communication, which could impact the engagement conclusion or decision-making process.

This ensures that all relevant facts are communicated to stakeholders

appropriately. References: International Standards for the Professional Practice of Internal Auditing (Standards) 2420.A1

NEW QUESTION: 523

An internal auditor performed a consulting engagement last year which included assisting with management's design of controls over the procurement function. How should the chief audit executive plan an assurance engagement on the adequacy of the internal control system in the procurement function in the current year?

- A. Harness the auditor's knowledge of the procurement function by assigning the engagement to the same internal auditor
- B. Postpone the engagement to the following year to ensure enough time has passed since the controls were designed
- C. Assign the engagement to another internal auditor on staff
- D. Outsource the engagement to ensure independence

Answer: C (LEAVE A REPLY)

NEW QUESTION: 524

In the COSO internal control framework, which of the following components serves as the foundation for the other components?

- A. Control activities.
- B. Control environment.
- C. Risk assessment.
- D. Monitoring

Answer: (SHOW ANSWER)

In the COSO internal control framework, the Control Environment component serves as the foundation for the other components. It sets the tone of an organization, influencing the control consciousness of its people. It is the basis for all other components of internal control, providing discipline and structure. The control environment includes the integrity, ethical values, and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors. COSO Framework on Internal Control.

NEW QUESTION: 525

When the chief audit executive is responsible for risk management in an organization, which of the following parties is responsible for overseeing the internal audit activity's assurance over risk management?

- A. The chief audit executive.
- B. A member of the compliance function.
- C. A party outside of the internal audit activity.
- D. A member of the risk management function.

Answer: C (LEAVE A REPLY)

When the chief audit executive (CAE) is responsible for risk management, it is essential to maintain the independence and objectivity of the internal audit activity. Therefore, the

oversight of the internal audit activity's assurance over risk management should be assigned to a party outside of the internal audit activity.

This ensures that there is no conflict of interest and that the internal audit function can provide unbiased assurance on risk management processes.

The IIA's Standards, particularly Standard 1112 on Chief Audit Executive Roles Beyond Internal Auditing.

The IIA's Practice Guide on Independence and Objectivity.

NEW QUESTION: 526

A receiving department receives copies of purchase orders for use in identifying and recording inventory receipts. The purchase orders list the name of the vendor and the quantities of the materials ordered. A possible error that this system could allow is:

- A. Delay in recording purchases.
- B. Payment for unauthorized purchases.
- C. Overpayment for partial deliveries.
- D. Payment to unauthorized vendors.

Answer: C (LEAVE A REPLY)

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NEW QUESTION: 527

Which of the following practices, applied by the chief audit executive {CAE}, most likely indicates an effective continuing professional educational program for the internal audit activity?

- A. The CAE tasks internal auditors with coordinating assurance activities with other providers across the organization.
- B. The CAE encourages auditors to volunteer to support research work of the local professional institute.
- C. The CAE requires auditors to periodically attest to the profession's Code of Ethics.
- D. The CAE reminds auditors to ensure workpapers are completed for audit engagements.

Answer: (SHOW ANSWER)

An effective continuing professional education (CPE) program for internal auditors involves ongoing development and engagement with the broader professional community. By encouraging auditors to volunteer and support research work of the local professional

institute, the CAE promotes professional growth, knowledge sharing, and staying current with industry best practices and emerging trends. This practice not only enhances the auditors' skills and knowledge but also fosters networking and professional development opportunities.

The IIA Standards: Standard 1230 - Continuing Professional Development: "Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development." IIA Practice Guide: "Continuing Professional Education (CPE)": Highlights the importance of engagement with professional bodies and continuous learning as part of an effective CPE program.

NEW QUESTION: 528

One of an organization's quality objectives is to reduce the amount of rework needed in the production cycle.

Which of the following controls would be the least effective in achieving this objective?

- A. Daily reconciliations are performed between finished goods and the number of rejects.
- B. Machinery is routinely maintained to avoid production malfunctions.
- C. Quality inspectors are assigned to identify any defects in the finished product.
- D. Employees are rewarded for suggestions that lead to quality improvements.

Answer: (SHOW ANSWER)

NEW QUESTION: 529

Senior management at a financial institution has received allegations of fraud at its derivatives trading desk and has asked the internal audit activity to investigate and issue a report concerning the allegations. The internal audit activity has not yet developed sufficient proficiency regarding derivatives trading to conduct a thorough fraud investigation in this area.

Which of the following courses of action should the chief audit executive (CAE) take to comply with the Standards?

- A. Contract with an external certified fraud examiner with derivatives experience to perform the investigation and subsequent reporting, with the chief audit executive approving the scope of the investigation and evaluating the adequacy of the work performed.
- B. Request that senior management allow a delay of the fraud investigation until the internal audit activity's on-staff certified fraud examiner is able to obtain the appropriate training regarding the analysis of derivatives trading.
- C. Request that senior management exclude the internal audit activity from the investigation completely and instead contract with an external certified fraud examiner with derivatives experience to perform all aspects of the investigation and subsequent reporting.
- D. Engage the former head of the institution's derivatives trading desk to perform the investigation and submit a report with supporting documentation to the CAE.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 530

In an assurance engagement of treasury operations, an internal auditor is required to consider all of the following issues except:

- A.** The external auditors have indicated some difficulties in obtaining account confirmations.
- B.** Due to the recent sale of a division, the amount of cash and marketable securities managed by the treasury department has increased by 350 percent.
- C.** The audit committee has requested assurance on the treasury department's compliance with a new policy on the use of financial instruments.
- D.** Treasury management has not instituted any risk management policies.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 531

An external assessment of an organization's internal audit activity was last completed four years ago. Which of the following options would be acceptable this year if the internal audit activity is to fulfill the requirements of the Standards?

- A.** The internal audit activity conducts a self-assessment that is validated by a qualified and experienced internal auditor and then schedules a qualified, independent external assessor.
- B.** The board nominates an independent individual from senior management in the organization to conduct an assessment of the internal audit activity.
- C.** An external auditor conducts an audit of the organization which includes information about the internal audit activity.
- D.** The chief audit executive schedules a self-assessment and the board approves the results.

Answer: A (LEAVE A REPLY)

The IIA's Standards require that an external assessment of an organization's internal audit activity must be conducted at least once every five years. Option A is the only acceptable approach listed that aligns with these standards. It involves conducting a self-assessment with independent validation by a qualified and experienced internal auditor, followed by scheduling an external assessor who is also qualified and independent. This process ensures compliance with the IIA's requirement for external assessments, maintaining both the credibility and objectivity of the internal audit activity. References: The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 532

Due to extreme liquid fuel price fluctuations, management decided to designate a specific price below which liquid fuel shall not be sold to customers, but instead shall be pumped into storage tanks. Which of the following risk responses has management selected?

- A.** Risk reduction.

- B. Risk transfer.
- C. Risk acceptance.
- D. Risk avoidance.

Answer: (SHOW ANSWER)

Management's decision to set a specific price below which liquid fuel shall not be sold, but instead stored, represents Risk avoidance. This approach involves eliminating the risk entirely by avoiding the activity that generates the risk. In this scenario, by deciding not to sell fuel below a certain price, management avoids the risk of losses due to price fluctuations.

References:

- * ISO 31000: Risk Management Guidelines.
- * COSO ERM Framework.

NEW QUESTION: 533

During an assurance engagement an internal auditor discovered that risk limits risk limit were set for a new market expansion project Management of the area under review was eager to comply and submitted a potential risk limit value for the auditor's review and approval. Which of the following would be an appropriate course of action for the auditor to take?

- A. Review the submission and if no further remarks exist approve the risk limits
- B. Provide advice if needed and ask management of the area under review to forward to senior management and the board for approval
- C. Develop risk limit calculation criteria and ask management of the area under review to resubmit the values.
- D. Avoid providing any advice or review until the audit report is issued

Answer: (SHOW ANSWER)

In this situation, the appropriate action for the internal auditor is to remain independent and avoid roles that could impair this independence, such as making managerial decisions. By advising and then directing the management to submit the proposal to senior management and the board, the auditor maintains an advisory role without crossing into decision-making territory, thus preserving the independence necessary for an assurance role.

Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 534

The internal audit activity is responsible for conducting fraud investigations. A potential fraud instance was identified during an audit engagement. The chief audit executive appoints a lead investigator. Which of the following would most likely be the next step?

- A. Ask internal auditors to gather all relevant information and evidence.
- B. Determine the competencies needed and assess whether team members have a conflict of Interest.

- C. Identify and interview witnesses first and potential suspects later.
- D. Conduct a fraud risk assessment to identify the most vulnerable areas.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 535

An employee is more likely to commit fraud if which of the following red flags are present?

1. The employee believes that he is being underpaid and deserves a higher salary.
2. The employee is close to retirement and has expressed a desire to take an expensive trip around the world.
3. The employee has personal financial problems and seems very unhappy.
4. The employee is spending much more time at the office than usual and has been asking about opportunities for professional advancement.

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

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 536

According to the Standards, which of the following statements about effective governance is not true?

- A. Its structures are distinct from risk management structures.
- B. It relies on internal controls to be effective.
- C. It is implemented by the board or an equivalent body.
- D. It considers risk when setting strategy.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 537

The internal audit activity is performing an assessment of an organization's ethics program, and the engagement scope specifies a focus on the training program's design. According to IIA guidance, which of the following questions would be the most relevant?

1. Does the training include situations that require an ethical decision?
2. What percentage of employees have taken the training?
3. What are the results of the employee assessment of the organization's ethical climate?
4. Does the instructor provide feedback on the thought process to reach an ethical resolution?

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

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 538

According to ISO 31000, which of the following statements is correct?

- A.** The board is responsible for setting the organizational attitude through tone at the top,
- B.** The internal audit activity will provide assurance over operating effectiveness but not over the design of risk management activities,
- C.** The internal audit activity can give objective assurance on any part of the risk management framework for which it is responsible.
- D.** The framework is designed to be effective for organizations no matter how small.

Answer: D (LEAVE A REPLY)

According to ISO 31000, the risk management framework is designed to be adaptable and effective for organizations of all sizes, including very small entities. This flexibility ensures that all types of organizations can implement risk management practices that are appropriate to their context, scope, and risk profile.

References: ISO 31000 - Risk Management Guidelines

NEW QUESTION: 539

What is the best course of action when the internal audit activity does not have the knowledge necessary to perform a planned audit of the organization's new IT data backup process?

- A.** Postpone the audit engagement to a later date.
- B.** Recruit and hire a full-time staff auditor who is proficient in data backup processes.
- C.** Change the plan from an assurance engagement to a consulting engagement.
- D.** Provide data backup training to the engagement supervisor.

Answer: (SHOW ANSWER)

The best course of action when the internal audit activity lacks the necessary knowledge for a planned audit is to Provide data backup training to the engagement supervisor. This option ensures that the audit team builds the required competencies internally, enhancing their ability to perform the audit effectively.

* Option A: Postponing the audit might delay identifying critical issues.

* Option B: Recruiting a full-time staff auditor is not a practical immediate solution and could be resource-intensive.

* Option C: Changing to a consulting engagement does not solve the knowledge gap for future audits.

Providing training aligns with the IIA Standard 1210.A1, which requires internal auditors to possess the knowledge, skills, and other competencies needed to perform their responsibilities.

IIA Standard 1210: Proficiency and Due Professional Care.

IIA Standard 1230: Continuing Professional Development.

NEW QUESTION: 540

Which of the following actions is a chief audit executive most likely to take in order to identify gaps in the internal audit activity's knowledge, skills, and competencies?

- A.** Develop a competency assessment tool for the internal audit activity based on The IIA Global Internal Audit Competency Framework.
- B.** Complete a skills assessment of the internal audit activity based on. The IIA Global Internal Audit Competency Framework.
- C.** Incorporate the basic criteria for competency of the internal audit activity into the job descriptions of potential internal auditors,
- D.** Develop an internal audit activity plan for training internal auditors to perform required assurance and consulting activities.

Answer: (SHOW ANSWER)

NEW QUESTION: 541

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: (SHOW ANSWER)

Section: Volume E

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NEW QUESTION: 542

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

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 543

When planning an audit engagement, what should an internal auditor first consider when assessing the risk of fraud in the area to be audited?

- A. Impact of and exposure to fraud.
- B. Existence of evidence of fraud.
- C. Organizational structure.
- D. Management's risk appetite.

Answer: A ([LEAVE A REPLY](#))

Section: Volume C

NEW QUESTION: 544

During a routine audit of a customer service hotline, an internal auditor noticed that an unusually high number of customer complaints pertained to payments not being applied to the customers' accounts.

Which of the following would most likely be the reason for the high volume of complaints?

- A. Submission of fraudulent expense reports.
- B. An ineffective customer service department.
- C. Check tampering by an employee.
- D. Poor controls in the invoice approval processes.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 545

Which of the following best describes a proactive role for the internal audit activity with regard to the organization's ethics program?

- A. Becoming a voting member of the organization's internal ethics council.
- B. Reviewing all departmental ethics-related policies.
- C. Conducting annual ethics training for all employees.
- D. Performing an annual organizationwide employee survey.

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 546

Which of the following factors is most important for internal auditors to consider when prioritizing fraud risks?

- A. The organization's code of conduct.
- B. The organization's code of ethics.

- C. The organization's competition.
- D. The organization's culture

Answer: D (LEAVE A REPLY)

NEW QUESTION: 547

Which of the following risk management activities is most appropriate for an internal auditor to undertake?

- A. Impose risk management processes.
- B. Implement risk responses on management's behalf.
- C. Coordinate risk management activities.
- D. Review the management of key risks.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 548

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

Answer: B (LEAVE A REPLY)

NEW QUESTION: 549

In preparing for an audit of the footwear division of a major retail organization, an internal auditor gathered the following information about the organization's stores:

| | All Stores | Northeast Region | Southwest Region | Central Region |
|--|------------|------------------|------------------|----------------|
| Average sales per store | \$736,000 | \$840,000 | \$750,000 | \$630,000 |
| Average cost of goods sold per store | \$375,000 | \$420,000 | \$325,000 | \$395,000 |
| Number of stores | 48 | 13 | 18 | 17 |
| Average square feet per store | 1800 | 2200 | 1850 | 1550 |
| Average sales per full-time employee | \$137,000 | \$152,000 | \$140,000 | \$122,000 |
| Average wage-related expense per store | \$98,000 | \$102,000 | \$82,000 | \$112,000 |
| Average net profit per store | \$238,000 | \$285,000 | \$320,000 | \$115,000 |

In addition to labor costs, the other costs associated with each store are leasing and maintenance expenses. Which of the following is a valid conclusion?

- A. Sales per store are directly related to the size of the store.
- B. Cost of goods sold is directly related to the size of the store.
- C. Gross margin is directly related to the size of the store.

D. Employees are less productive in larger stores.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 550

After being terminated due to downsizing, an internal auditor finds a different job with an organization in the same industry. Which of the following actions would violate the IIA Code of Ethics?

A. To determine audit priorities in the new job, the auditor uses the audit risk approach that the auditor's previous employer used, without receiving permission to do so.

B. At the new organization, the auditor is asked to develop forms to implement probability-proportional-to-size sampling. Although unsure of how to perform this type of sampling, the auditor proceeds without asking for assistance.

C. In preparing for an audit at the previous organization, the auditor had conducted a great deal of research on the Internet at home to identify best practices for the management of a treasury function. The auditor has retained much of the research and uses it to conduct an audit of the new employer's treasury function.

D. In the first week at the new organization, the auditor discovers a high fraud risk surrounding the organization's database and suggests that the information technology department implement a new password system to prevent fraudulent actions before they occur.

Answer: B (LEAVE A REPLY)

Section: Volume E

NEW QUESTION: 551

Which of the following situations is most likely to heighten an internal auditor's professional skepticism regarding potential fraud?

A. A procurement manager does not have the expected academic credentials for his position.

B. A salesperson frequently complains about the organization's policy on sales commissions.

C. The accounts payable supervisor has requested advances against her monthly salary on several occasions.

D. A financial accountant is absent from work frequently due to regular medical procedures.

Answer: (SHOW ANSWER)

Requesting advances against a monthly salary frequently, as in option C, could indicate financial stress or potentially dubious financial management behaviors. This situation could heighten an auditor's professional skepticism regarding potential fraud due to possible motives or incentives to commit fraud.

Internal Auditing Standards and professional guidelines on fraud risk awareness and assessment.

NEW QUESTION: 552

According to IIA guidance which of the following correctly describes the standard risk treatments outlined in the process element approach of the framework for risk management?

- A. Risk avoidance risk sharing application of controls, risk application.
- B. Risk avoidance risk identification application of controls risk acceptance.
- C. Risk identification risk assessment risk avoidance risk monitoring
- D. Risk identification risk assessment application of controls risk acceptance

Answer: D (LEAVE A REPLY)

According to IIA guidance, the standard risk treatments outlined in the process element approach of the framework for risk management include the following steps:

- * Risk Identification: Identifying potential risks that could affect the achievement of objectives.
- * Risk Assessment: Evaluating the identified risks in terms of their likelihood and impact.
- * Application of Controls: Implementing measures to mitigate or manage the identified risks.
- * Risk Acceptance: Deciding to accept the risk when it falls within the organization's risk appetite or tolerance levels.

These steps are part of a structured approach to managing risks, ensuring that risks are systematically identified, assessed, and managed through appropriate controls and that acceptance of residual risks is aligned with the organization's strategic objectives and risk appetite.

References:

- * IIA Practice Guide: Assessing the Adequacy of Risk Management Using ISO 31000
- * COSO Enterprise Risk Management Framework

NEW QUESTION: 553

Which of the following documents are internal auditors most likely to be asked to sign as a demonstration of due professional care?

A description of their job responsibilities,

- A. A non-disclosure agreement.
- B. An annual declaration of commitment to
- C. The IIA s Code of Ethics.
- D. The internal audit charter.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 554

Which of the following actions is the internal audit activity best positioned within the organization to perform?

- A. Advise the board on risk management issues

- B. Determine organizational risk tolerances
- C. Determine the likelihood and impact of risks
- D. Monitor the organization's risk mitigations

Answer: A (LEAVE A REPLY)

NEW QUESTION: 555

According to NA guidance, which of the following practices by the chief audit executive (CAE) best enhances the organizational independence of the internal audit activity?

- A. CAE reviews and approves the annual audit plan,
- B. CAE meets privately with the CEO at least annually.
- C. CAE meets privately with the board at least annually,
- D. CAE reports to the board regarding audit staff performance evaluation and compensation.

Answer: C (LEAVE A REPLY)

According to IIA guidance, the practice by the chief audit executive (CAE) that best enhances the organizational independence of the internal audit activity is meeting privately with the board at least annually.

This practice ensures that the internal audit activity can operate independently of management and directly report and discuss significant matters with the board, which is critical for maintaining its independence and objectivity.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 556

An internal auditor discovered fraud while performing an audit of an organization's procurement process.

Which of the following describes the greatest benefit of using forensic auditing techniques in this scenario?

- A. Enhanced capability to prevent frauds from occurring.
- B. Greater assurance that procurement frauds will be detected in a timely manner
- C. Improved capability of evaluating fraud risks within the organization.
- D. Greater understanding of fraud through better evidence collection

Answer: D (LEAVE A REPLY)

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NEW QUESTION: 557

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

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

Answer: (SHOW ANSWER)

NEW QUESTION: 558

Which of the following is the most appropriate way to ensure that a newly formed internal audit activity remains free from undue influence by management?

- A. Appoint the chief audit executive as a member of the board.
- B. Adopt written policies and procedures for the internal audit activity, approved by the board.
- C. Ensure the chief audit executive reports administratively to the audit committee.
- D. Establish the internal audit activity's position within the organization in an audit charter.

Answer: D (LEAVE A REPLY)

The most effective way to ensure that a newly formed internal audit activity remains free from undue management influence is to establish the internal audit activity's position within the organization through an audit charter. According to the Institute of Internal Auditors (IIA) standards, the audit charter should define the purpose, authority, and responsibility of the internal audit activity, clearly outlining the scope of internal auditing within the organization. This foundational document formalizes the internal audit function's role and provides a framework that supports its operational independence. References: The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 559

A chief audit executive (CAE) of an international charity reports functionally to the audit committee of the board of directors and administratively to the charity's chief financial officer (CFO).

Which of the following would impair the internal audit function's independence?

- A. The CFO determines the scope of internal audit work in the accounting department.
- B. The CFO manages the accounting of the budget for the internal audit function.
- C. The CFO administers the annual evaluation process for the internal auditors.
- D. The CFO provides feedback on the CAE's audit reports.

Answer: A (LEAVE A REPLY)

Section: Volume E

Explanation/Reference:

NEW QUESTION: 560

When conducting a preliminary survey, which of the following audit activities should an internal auditor complete first?

- A. Identify client objectives, goals, and standards.
- B. Write detailed audit procedures.
- C. Determine relevant engagement objectives.
- D. Identify risks and controls intended to prevent associated losses.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 561

Which of the following controls would most likely prevent fraud related to the overpayment of vendors?

- A. Require supervisory review of all invoices and cash disbursements exceeding a stated threshold.
- B. Require the matching of a purchase order, receiving report, and invoice before payment.
- C. Require all checks to be signed by more than one person.
- D. Require all invoices to be paid within 30 days by check only.

Answer: B (LEAVE A REPLY)

Requiring the matching of a purchase order (PO), receiving report, and invoice before payment is a robust control designed to prevent overpayment and other types of fraudulent activities related to vendor payments.

This control ensures that:

- * The goods or services invoiced were actually ordered (verified by the purchase order).
- * The goods or services were received (verified by the receiving report).
- * The invoice amount matches the agreed-upon terms and quantities (verified by the invoice).

This three-way match process helps prevent discrepancies such as overpayments, duplicate payments, or payments for goods/services not received. By ensuring all three documents align, it mitigates the risk of fraud and errors in vendor payments.

References:

- * The Institute of Internal Auditors (IIA) Standards and Practice Advisories.
- * COSO Internal Control - Integrated Framework, specifically on control activities.
- * "Internal Auditing: Assurance & Advisory Services" by IIA, Chapter on Procurement and Accounts Payable Controls.

NEW QUESTION: 562

During an audit of company expenses, the internal auditor performed a test using data analytics and identified a violation of the company's expenses policy. The auditor who

discovered the issue considered it a potential fraudulent transaction and informed the chief financial officer (CFO). The CFO dismissed the concern because he did not understand the data analytics test that was performed and the transaction was of a low value. Given this situation, which skills or competencies should this internal auditor seek to improve?

- A. Skills in evaluating the risk of fraud.
- B. Knowledge of key IT risks and controls
- C. Soft skills such as communication and negotiation.
- D. Knowledge and understanding of the company's expenses policy

Answer: C (LEAVE A REPLY)

Given that the CFO dismissed the concern due to a lack of understanding of the data analytics test and the perceived insignificance of the transaction, the internal auditor should improve soft skills, specifically communication and negotiation. Enhancing these skills would help the auditor better explain the significance of findings and persuade management of the need to address such issues, regardless of transaction value. References: Institute of Internal Auditors (IIA) - Competency Framework for Internal Auditors

NEW QUESTION: 563

Senior management at a financial institution has received allegations of fraud at its derivatives trading desk and has asked the internal audit activity to investigate and issue a report concerning the allegations. The internal audit activity has not yet developed sufficient proficiency regarding derivatives trading to conduct a thorough fraud investigation in this area. Which of the following courses of action should the chief audit executive (CAE) take to comply with the Standards?

- A. Request that senior management allow a delay of the fraud investigation until the internal audit activity's on-staff certified fraud examiner is able to obtain the appropriate training regarding the analysis of derivatives trading.
- B. Contract with an external certified fraud examiner with derivatives experience to perform the investigation and subsequent reporting, with the chief audit
- C. Engage the former head of the institution's derivatives trading desk to perform the investigation and submit a report with supporting documentation to the CAE.
- D. Request that senior management exclude the internal audit activity from the investigation completely and instead contract with an external certified fraud examiner with derivatives experience to perform all aspects of the investigation and subsequent reporting.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 564

An organization's accounts payable function improved its internal controls significantly after it received an unsatisfactory audit report.

When planning a follow-up audit of the function, what level of detection risk should be expected if the audit and sampling procedures used are unchanged from the prior audit?

- A. Detection risk is lower because control risk is higher.
- B. Detection risk is lower because control risk is lower.
- C. Detection risk is higher because control risk is lower.
- D. Detection risk is unchanged although control risk is lower.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 565

Reportable audit findings must be:

- I. Documented by facts.
- II. Supported by relevant evidence.
- III. Agreed to by management of the audited area.
- IV. Convincing enough to compel corrective action.

- A. II and III only
- B. I, II, III, and IV.
- C. I and IV only
- D. I, II, and IV only

Answer: D (LEAVE A REPLY)

NEW QUESTION: 566

The chief audit executive (CAE) has hired a new internal auditor who was immediately assigned to a procurement function audit. Because the new auditor's name is similar to that of the procurement manager, some staff members think the two are related, although they are not.

Which of the following actions is most appropriate for the CAE to take?

- A. Take no action, as there is no impairment to independence.
- B. Discuss the matter with the appropriate personnel to alleviate concerns.
- C. Remove the new internal auditor from the engagement team.
- D. Closely supervise the new auditor and carefully review his work.

Answer: (SHOW ANSWER)

NEW QUESTION: 567

Which of the following processes does the board manage to ensure adequate governance?

- A. Establish and measure performance objectives for the internal audit activity.
- B. Select board members with necessary knowledge and skills.
- C. Develop, approve, and execute the strategic plan of the organization.
- D. Develop strategies to mitigate the risks to achieving the organization's objectives

Answer: C (LEAVE A REPLY)

The board manages the process of developing, approving, and executing the strategic plan of the organization to ensure adequate governance. This responsibility includes aligning the strategic plan with the organization's goals and monitoring its execution, which is a key governance role. References: Corporate governance principles; IIA guidance on the role of the board in strategic planning.

NEW QUESTION: 568

A large trucking organization wants to reduce traffic accidents by improving its system of internal controls.

Which of the following controls is correctly classified?

1. Review of speeding violations to identify repetitive locations and drivers is an example of a preventive control.
2. Defensive driver training is an example of a directive control.
3. The installation of tracking devices in delivery vehicles is an example of a corrective control.
4. Providing a vehicle driver handbook is an example of a detective control.

A. 1 and 2.

B. 2 and 3.

C. 3 and 4.

D. 1 and 4.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 569

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. Total cash deposits for the month are reconciled to the cash receipts journal.

B. Names, amounts, and dates on remittance advices are reconciled with the names, amounts, and dates recorded in the cash receipts journal.

C. Monthly bank reconciliations are performed by the clerk on a timely basis.

D. Total cash deposits are compared with the bank reconciliation.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 570

Which of the following policies promotes internal audit objectivity?

A. The CAF's appointment is determined by the CEO

B. The CAE's compensation is approved by the chief financial officer

C. The chief audit executive (CAE) reports functionally to the CEO

D. The CAE reports administratively to the chief operating officer

Answer: (SHOW ANSWER)

NEW QUESTION: 571

Some of a company's payroll transactions were batch posted to the payroll file but were not uploaded correctly to the general ledger file on the mainframe.

The best control to detect this type of error would be:

- A. Edit controls on the payroll file.
- B. Appropriate segregation of duties for batch approval.
- C. Validation of hash totals.
- D. Reconciliation of paychecks to the bank account.

Answer: C (LEAVE A REPLY)

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NEW QUESTION: 572

Which of the following must be considered by the chief audit executive before writing the internal audit charter?

- A. Internal auditors' level of competencies and skills.
- B. The manner in which the internal audit activity is viewed by the board.
- C. Evaluation of staff certifications and continued development.
- D. Effectiveness of the quality assurance and improvement program.

Answer: B (LEAVE A REPLY)

The board's perception of the internal audit activity influences the charter's development. IIA standards emphasize that the internal audit charter should reflect the board's expectations to ensure the audit function's authority and independence.

NEW QUESTION: 573

When comparing an organization's current performance to that of the prior year, an internal auditor found that:

-Total labor costs had increased. -More overtime costs had been incurred. -The total number of workers had increased. -Net income was 10 percent lower. - Based solely on this information, which of the following is a valid conclusion?

- A. Total labor hours increased.
- B. Worker efficiency decreased.

- C. Net income per worker decreased.
- D. Wage rates increased.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 574

Which of the following engagements would be considered an appropriate consulting service?

- A. The internal audit activity of a commercial bank routinely performs branch audits for compliance with regulations.
- B. The internal audit activity participates in a cosourcing arrangement with an IT audit firm to test information systems security.
- C. The internal audit activity facilitates biannual training of the risk management team in risk identification methodologies.
- D. The internal audit activity partners with external auditors annually to complete fieldwork required as a part of the external audit exercise.

Answer: C (LEAVE A REPLY)

The most appropriate consulting service from the options provided is facilitating biannual training of the risk management team in risk identification methodologies. This is considered a consulting activity because it involves adding value and improving the organization's operations through training and development, a supportive role that falls squarely within the scope of consulting services as defined by the IIA. References: IIA guidance on the nature of consulting services provided by internal audit activities.

NEW QUESTION: 575

An engagement supervisor noticed that a newly hired internal auditor struggles with large data samples because he appears reluctant to apply available spreadsheet statistical functions and tends to perform testing of transactions manually. In which of the following areas does the internal auditor most likely need training?

- A. Critical thinking.
- B. International Professional Practices Framework
- C. Professional ethics
- D. Business acumen

Answer: (SHOW ANSWER)

The auditor's reluctance to apply statistical functions in spreadsheet software indicates a gap in applying analytical and problem-solving skills in complex data environments. This gap relates to critical thinking, which involves understanding logical connections between ideas, identifying the relevance and importance of arguments, and systematically solving problems. Training in critical thinking would equip the auditor to better utilize analytical tools and improve efficiency and effectiveness in auditing tasks. References: Internal auditing educational materials on auditor competencies and skills development

NEW QUESTION: 576

Which of the following is true regarding risk analysis?

- A. Impact and likelihood should be used to determine risk response.
- B. Impact and likelihood should be measured using quantitative methods.
- C. Impact and likelihood should be given equal consideration by the internal auditor.
- D. Impact and likelihood should be assessed together.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 577

Which of the following would best serve to deter unethical behavior and encourage internal auditors to be objective in their work?

- A. Ongoing monitoring and periodic internal quality assessments
- B. Periodic communications reminding internal auditors of Standards requirements
- C. A review of the final audit report by the audit committee
- D. A requirement that internal auditors undergo objectivity training periodically

Answer: B (LEAVE A REPLY)

NEW QUESTION: 578

The chief audit executive (CAE) planned an in-person group training to help internal auditors perform onsite inspections of an automobile manufacturing facility. The training would have allowed the auditors to better understand the production of the organization's automobiles. However, a global health crisis has impacted the training by prohibiting in-person contact at the facility. Which of the following could the CAE use to provide auditors with a better understanding of the organization's production process?

- A. A general web-based training on auditing manufacturing processes.
- B. Self-study courses on the industry's production practices
- C. Industry publications that discuss production methods
- D. A virtual meeting with management that explains the production of automobiles

Answer: (SHOW ANSWER)

The proficiency of an internal auditor as per the IIA standards is demonstrated by their ability to understand and evaluate risks relevant to their audit assignments. This includes having a sufficient understanding of IT risks and controls, as well as the ability to evaluate the risk of fraud within the organization. This knowledge is critical for performing effective and comprehensive audits that align with the organization's needs and audit standards.

Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, particularly standards related to auditor proficiency and competency.

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NEW QUESTION: 579

Which of the following is a preventive control?

- A. Placing controls on physical access to inventory.

- B. Creating an audit trail.
- C. Reconciling purchase orders with approvals.
- D. Reviewing expense accounts for irregularities.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 580

An audit of the quality control department is being planned. Which of the following would least likely be used in the preparation of a preliminary survey questionnaire?

- A. An analysis of quality control documents.
- B. The prior audit report.
- C. The permanent audit file.
- D. Management's charter for the quality control department.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 581

According to IIA guidance, which of the following best demonstrates how the chief audit executive may ensure that due professional care is applied?

- A. Establish policies and procedures concerning the engagement process
- B. Base the auditor evaluation process on the number of observations
- C. Develop a strategy for recruiting assigning, and training staff
- D. Outsource complex engagements to an external service provider

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 582

The management team of an agricultural organization has prioritized corporate social responsibility (CSR) initiatives. Which of the following would be considered a CSR activity?

- A. Offering a one-off donation to an environmental charity for its expansion efforts
- B. Organizing organization volunteers to provide periodic plantation skill sharing to farmers
- C. Providing special year-end monetary bonuses to the organization's employees at all levels
- D. Arranging a free-of-charge picnic for all of the organization's employees and their family members

Answer: ([SHOW ANSWER](#))

Organizing volunteers from the organization to provide periodic plantation skill sharing to farmers represents a corporate social responsibility (CSR) activity. This initiative not only supports community development but also aligns with sustainable agricultural practices, which is especially relevant for an agricultural organization.

This activity focuses on giving back to the community and enhancing sustainability, both key aspects of CSR. References: Definitions and examples of CSR in industry guidelines

NEW QUESTION: 583

What is an appropriate first step in an internal auditor's fraud risk assessment to evaluate how the organization manages such risk?

- A. Develop preventive and detective controls
- B. Identify potential fraud scenarios
- C. Assess the impact and likelihood of fraud risks
- D. Determine fraud risk responses

Answer: (SHOW ANSWER)

An appropriate first step in an internal auditor's fraud risk assessment to evaluate how the organization manages such risk is to identify potential fraud scenarios. This step involves understanding possible fraud schemes and fraudulent acts that could occur within the organization and is essential before assessing the impact, likelihood, or developing appropriate responses. References: Institute of Internal Auditors (IIA) - Practice Guide: Assessing Fraud Risks and Developing a Fraud Risk Management Program

NEW QUESTION: 584

This chief audit executive (CAE) engaged an internal auditor to consult on an organization's complex information technology system. Shortly after beginning the engagement, the auditor unexpectedly resigned. Unfortunately, this auditor was the only available auditor with the necessary expertise. The CAE will not be able to hire someone with similar expertise in time to meet a regulatory deadline.

Which of the following would be the best course of action for the CAE to take?

- A. Ask that a senior member of the organization's IT department with the required systems expertise join the audit team to assist in completing the engagement.
- B. Continue with the engagement in order to meet the regulatory deadline, but highlight areas in the final report that might need to be revised in the future.
- C. Remove the planned engagement from the audit plan and explain to senior management the problems with moving forward without an auditor with the necessary expertise.
- D. Delay the engagement and inform the board of the situation, asking them to provide acceptable alternatives for completing the engagement.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 585

Internal auditors can benefit from a strong relationship with the external auditors because external auditors can:

- A. Provide internal auditors with an independent and knowledgeable viewpoint.
- B. Concur with the internal auditors' reports and thus improve the quality of assurance provided to management.
- C. Increase the effectiveness of internal control sampling techniques.
- D. Assist the internal auditor by providing information obtained from similar audits with other clients.

Answer: A (LEAVE A REPLY)

Section: Volume B

NEW QUESTION: 586

Which type of engagement requires that the client agrees with the techniques used by the internal audit activity?

- A. A compliance audit
- B. A sensitive fraud investigation.
- C. A consulting service.
- D. A performance audit.

Answer: C (LEAVE A REPLY)

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NEW QUESTION: 587

Organizations that use a highly structured command-and-control management approach are at greater risk of:

- A. Delayed response due to the inability to reach consensus among decision makers.
- B. Waste and abuse of organizational resources resulting from management override of controls.
- C. Negative consequences that result from lower-level staff's unwillingness to confront errors by superiors.
- D. Erosion of staff morale due to perceptions of ineffective leadership.

Answer: (SHOW ANSWER)

NEW QUESTION: 588

An IT contractor applied for an internal audit position at a bank. The contractor worked for the bank's IT security manager two years ago. If the audit manager interviewed the contractor and wants to extend a job offer, which of the following actions should the chief audit executive pursue?

- A. Allow the audit manager to hire the contractor and state that the individual is free to perform IT audits, including security.
- B. Not allow the audit manager to hire the contractor, as it would be a conflict of interest

C. Allow the audit manager to hire the contractor, but state that the individual is not allowed to work on IT security audits for one year.

D. Not allow the audit manager to hire the contractor and ask the individual to apply again in one year.

Answer: C (LEAVE A REPLY)

If the IT contractor previously worked under the bank's IT security manager and is now applying for an internal audit position at the bank, the chief audit executive should allow the hiring but restrict the contractor from working on IT security audits for one year. This measure prevents potential conflicts of interest and ensures that the contractor's prior association with the IT security manager does not influence audit objectivity. References: IIA Standards for Professional Practice of Internal Auditing, specifically those related to objectivity and conflicts of interest.

NEW QUESTION: 589

Which of the following is the internal audit activity expected to do with respect to the organization's governance processes?

A. Provide strategic guidance on the organizational processes to senior management.

B. Formally audit all governance activities.

C. Achieve agreement with the board regarding the range of activities, depth of review, and time period to include in the assessment.

D. Audit against the governance structures and practices widely used in the industry.

Answer: (SHOW ANSWER)

NEW QUESTION: 590

According to the Standards, a review team must express an opinion on which of the following when performing an external assessment of an internal audit activity?

1. Conformance with the Standards and IIA Code of Ethics.

2. Effectiveness of continuous improvement activities.

3. Feedback from internal audit customers and other stakeholder groups.

4. Efficiency and effectiveness of the internal audit activity's administration processes.

A. 2 and 4 only

B. 1 only

C. 1 and 2 only

D. 3 only

Answer: B (LEAVE A REPLY)

NEW QUESTION: 591

According to IIA guidance, which of the following actions best demonstrates that due professional care has been considered by the internal audit activity when conducting a review of an organization's assets?

- A. Determining whether any opportunity exists for senior executives to misappropriate property or funds
- B. Planning and executing fieldwork In a complete and timely manner to identify all significant risks
- C. Verifying whether the board of directors has implemented effective internal controls
- D. Having senior management determine whether the degree of work planned is sufficient to meet engagement objectives

Answer: B (LEAVE A REPLY)

Demonstrating due professional care in internal auditing involves thorough planning and executing audit procedures that are appropriate to the scope and objectives of the audit. Option B, planning and executing fieldwork in a complete and timely manner to identify all significant risks, best demonstrates due professional care by ensuring that all relevant risks associated with the organization's assets are identified and addressed.

This approach aligns with IIA standards that require auditors to apply knowledge, skills, and experience appropriately in providing assurance services.

IIA Standard 2200: "Due Professional Care"

NEW QUESTION: 592

Which of the following is an example of an application control?

- A. Employees in the data center must always wear identification badges
- B. Operating system updates must be installed within 48 hours.
- C. A two stage authentication process must be used to access customer information
- D. System backup and recovery testing must be done monthly

Answer: C (LEAVE A REPLY)

An example of an application control specifically involves the software or system used to process information. A two-stage authentication process to access customer information is an application control because it involves the authentication mechanisms within the application software to secure access to sensitive data. This control helps in verifying the identity of users and ensuring that access to critical data is restricted to authorized personnel only.

IT Governance Institute's COBIT Framework.

NEW QUESTION: 593

According to IIA guidance, the nature and scope of assurance and consulting services to be offered must be clearly delineated in which of the following internal audit documents?

- A. The internal audit charter.
- B. The internal audit mission statement.
- C. The internal audit policies and procedures handbook.
- D. Each internal audit engagement letter.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 594

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

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 595

According to MA guidance, which of the following statements is true regarding an effective governance process?

- A. It stipulates that risk needs to be considered when making strategic decisions.
- B. It encourages strict segregation of the risk management and internal control processes.
- C. It relies on effective risk management when establishing the organization's risk appetite.
- D. It relies on the board to devise ways to communicate the effectiveness of internal controls.

Answer: (SHOW ANSWER)

An effective governance process requires that risk is considered in strategic decision-making, ensuring that all significant risks are identified, assessed, and managed appropriately. This integration of risk management into the strategic planning process helps align risk appetite and strategy, improving the overall governance and risk management framework of the organization.

References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 596

An internal auditor performed a risk assessment and concluded that the controls over access privileges to a bank account were appropriate. Later, the auditor learned that a contractor was using a shared password provided by an authorized user of the account. Which of the following statements best describes the auditor's application of due professional care?

- A. Due professional care was exercised, despite the auditor's failure to identify the significant risk.
- B. Due professional care was not exercised because the auditor failed to identify all the significant risks during the risk assessment.
- C. Due professional care was not exercised because the residual risk from the possibility of authorized users sharing their passwords was not considered.
- D. Due professional care was not exercised because the auditor failed to conduct interviews to obtain testimonial evidence of possible password sharing

Answer: (SHOW ANSWER)

Due professional care was not exercised because the residual risk from the possibility of authorized users sharing their passwords was not considered. Identifying and assessing risks associated with shared access and improper handling of credentials is crucial in a risk assessment. The failure to consider such risks indicates a lack of thoroughness in the auditor's evaluation of control effectiveness.

IIA Standard 1300: Quality Assurance and Improvement Program

NEW QUESTION: 597

During an audit of company expenses, the internal auditor performed a test using data analytics and identified a violation of the company's expenses policy. The auditor who discovered the issue considered it a potential fraudulent transaction and informed the chief financial officer (CFO). The CFO dismissed the concern because he did not understand the data analytics test that was performed and the transaction was of a low value. Given this situation, which skills or competencies should this internal auditor seek to improve?

- A. Knowledge and understanding of the company's expenses policy
- B. Knowledge of key IT risks and controls
- C. Skills in evaluating the risk of fraud.
- D. Soft skills such as communication and negotiation.

Answer: (SHOW ANSWER)

NEW QUESTION: 598

The first stage in the development of a crisis management program is to:

- A. Create a crisis management team.
- B. Conduct a risk analysis.
- C. Practice the response to a crisis.
- D. Formulate contingency plans.

Answer: (SHOW ANSWER)

NEW QUESTION: 599

Which level of corporate social responsibility does whistleblowing in companies primarily support?

- A. Ethical responsibility.
- B. Economic responsibility.
- C. Legal responsibility.
- D. Discretionary responsibility.

Answer: A (LEAVE A REPLY)

Whistleblowing is aligned with ethical responsibility, encouraging transparency and ethical behavior within organizations. IIA guidance on corporate social responsibility emphasizes that ethical responsibility involves safeguarding stakeholders' interests.

NEW QUESTION: 600

According to IIA guidance, which of the following corporate social responsibility (CSR) evaluation activities may be performed by the internal audit activity?

1. Consult on CSR program design and implementation.
2. Serve as an advisor on CSR governance and risk management.
3. Review third parties for contractual compliance with CSR terms.
4. Identify and mitigate risks to help meet the CSR program objectives.

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

Answer: D (LEAVE A REPLY)

NEW QUESTION: 601

During engagement planning, the engagement supervisor recommended that the amount of time originally budgeted for the engagement should be expanded due to the engagement's complexity and materiality. This scenario is an example of which of the following?

- A.** A lack of audit competency.
B. Due professional care.
C. Internal audit objectivity.
D. Proper engagement supervision.

Answer: (SHOW ANSWER)

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NEW QUESTION: 602

Which of the following decisions made during the testing phase of a compliance audit requires the most judgment by an internal auditor?

- A.** Which sampling methodology to select for testing.
B. What level of noncompliance is acceptable.
C. Which fields to examine on each invoice.
D. Whether an individual expenditure is allowable.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 603

A newly appointed chief audit executive (CAE) is tasked with creating a new internal audit activity within the organization. Which of the following would the CAE need to include in the new internal audit charter?

- A. The specific engagements that the internal audit activity will perform for the organization
- B. The relevant regulations that will guide the internal audit activity's regulatory compliance assessments
- C. The board's oversight role and responsibilities pertaining to the internal audit activity
- D. The requirement to provide an annual cost analysis that justifies having an internal audit activity

Answer: B (LEAVE A REPLY)

NEW QUESTION: 604

Which of the following represents the most effective governance structure?

I.

Operating

Executive

Internal

Management

Management

Auditing

Responsibility for risk

Oversight role

Advisory role

II.

Oversight role

Responsibility for risk

Advisory role

III.

Responsibility for risk

Advisory role

Oversight role

IV.

Oversight role

Advisory role

Responsibility for risk

A. III

B. IV

C. I Only

D. II

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 605

According to HA guidance, which of the following is true regarding independence and objectivity for small internal audit activities?

- A.** Conformance with this Standard is not dependent upon the size of the internal audit activity.
- B.** The CAE may consider greater involvement of those with suitable knowledge of audit practice.
- C.** Due to the small size of the internal audit activity, having an external assessment once every seven years is acceptable.
- D.** The chief audit executive (CAE) may consider including a disclaimer on independence in audit reports.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 606

According to NA guidance, which of the following is true regarding typical fraud schemes?

1. A diversion occurs when an employee has an undisclosed personal economic interest in a transaction that adversely affects the organization.
2. Tax evasion is intentional reporting of false or misleading information on a tax return by an organization to reduce taxes owed.
3. Skimming involves stealing cash or assets from the organization and is normally concealed by adjusting the organization's records.
4. Disbursement fraud occurs when a person causes the organization to issue a payment for fictitious goods or services.

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

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 607

An organization is implementing a new cybersecurity policy and has established a committee to ensure stakeholder alignment across the organization's infrastructure, network, and security teams. The head of the committee has asked the chief audit executive if the internal audit activity could play a role in these efforts.

According to HA guidance, which of the following is the most appropriate response?

- A.** It is not appropriate for the internal audit activity to play a role because its independence must be protected.
- B.** The internal audit activity should not participate because there are no IT auditors on staff.

C. The internal audit activity is knowledgeable about risk and therefore should prioritize the organization's responses and control activities for the committee.

D. The internal audit activity may assist the committee and consult with management on the organization's responses and control activities.

Answer: D (LEAVE A REPLY)

According to IIA guidance, the internal audit activity can participate in and provide consulting services that add value and improve an organization's operations. By assisting the committee and consulting with management on the organization's responses and control activities, the internal audit activity utilizes its expertise in risk management while maintaining its advisory role without compromising its independence or objectivity. References: Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 608

A chief audit executive used risk assessment to prepare the audit work schedule. Which of the following would be the least appropriate reason to modify the schedule?

A. Need for coordination of audit activities with the external auditors.

B. Budget constraints or expansions.

C. Request for postponement since the audit would be too complicated.

D. Change in the relative risk of auditable activities during the year.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 609

According to MA guidance, which of the following best demonstrates that the chief audit executive is properly reporting the results of the quality assurance and improvement program to senior management and the board?

A. Giving copies of both external and internal assessments to the board.

B. Retaining copies of board meeting minutes showing that discussions of assessments took place.

C. Keeping files of reports of ongoing external assessment monitoring

D. Providing a written conformance statement to both senior management and the board.

Answer: (SHOW ANSWER)

NEW QUESTION: 610

At the beginning of an IT development project, key risks were identified and assessed, and risk owners were appointed. Six months later, the IT development team reported that the project is significantly over budget, it will not be completed on time, and key personnel had left the organization. Which of the following risk management practices should be improved for future projects?

A. Risk monitoring

B. Risk assessment

- C. Risk response
- D. Risk avoidance

Answer: A (LEAVE A REPLY)

NEW QUESTION: 611

Which of the following demonstrates that the internal audit activity exercises due professional care?

- A. Supervisors provide feedback to internal auditors after workpapers are reviewed
- B. A self-assessment is conducted through the quality assurance and improvement program every five years
- C. Internal auditors are required to give absolute assurance of regulatory compliance
- D. The chief audit executive reports functionally to the board

Answer: (SHOW ANSWER)

The practice of supervisors providing feedback to internal auditors after reviewing workpapers demonstrates the exercise of due professional care within the internal audit activity. This feedback mechanism helps ensure the quality of audit work and adherence to professional standards, and it promotes continuous improvement and development of audit staff. This aligns with the IIA's definition of due professional care, which includes diligence, attention to detail, and continuous professional development. References: IIA Standard 1300:

Quality Assurance and Improvement Program, which outlines the requirements for due professional care.

NEW QUESTION: 612

Which of the following roles, if undertaken by an internal auditor, would have the greatest potential for conflict with the Standards regarding objectivity?

- A. IT system designer.
- B. Product development team consultant.
- C. Ethics advocate.
- D. External audit liaison.

Answer: A (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 613

During the audit of taxation processes in the organization internal auditors have verified that all employees of the finance department received training on taxation guidelines. The training is mandatory and is automatically assigned via email invitation to all new employees in the department. Which type of controls have the auditors tested?

- A. Directive
- B. Preventive
- C. Detective

D. Automatic

Answer: (SHOW ANSWER)

In this scenario, the auditors have tested preventive controls. Preventive controls are designed to deter unwanted events before they occur. The mandatory training on taxation guidelines for finance department employees is a preventive measure, as it aims to prevent errors or violations in taxation processes by ensuring all employees are well informed and compliant from the start. The automation of training assignment further supports the preventive nature of this control.

IIA guidance on types of controls

NEW QUESTION: 614

According to IIA guidance, which of the following statements is true regarding internal auditors' knowledge, skills and other competencies?

- A.** The chief audit executive (CAE) must obtain competent advice and assistance if the internal audit activity lacks the knowledge, skills, or other competencies needed to complete the audit engagement
- B.** Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization and should have the expertise of a fraud investigator
- C.** Internal auditors need to have basic knowledge of key IT risks and controls and available technology-based audit techniques in order to perform their assigned work
- D.** The CAE must refuse a consulting engagement if the internal audit activity lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement

Answer: A (LEAVE A REPLY)

According to IIA guidance, the chief audit executive (CAE) must obtain competent advice and assistance if the internal audit activity lacks the knowledge, skills, or other competencies needed to complete the audit engagement. This ensures that the internal audit activity can effectively carry out its responsibilities by supplementing its capabilities where necessary to maintain quality and effectiveness. References: IIA Standard 1210 - Proficiency

NEW QUESTION: 615

Which of the following describes a responsibility of operating management in an organization's corporate social responsibility (CSR) efforts?

- A.** Responsible for implementing CSR principles and overseeing of CSR performance.
- B.** Responsible for performing periodic internal self-verifications of reported CSR results.
- C.** Responsible for performing analysis and comparison of CSR reports and performance.
- D.** Responsible for ongoing CSR reporting and accomplishing of performance targets.

Answer: (SHOW ANSWER)

Operating management in an organization is responsible for implementing CSR principles and overseeing CSR performance (Option A). This involves ensuring that the CSR

initiatives align with the organization's goals and values, and that these initiatives are executed effectively. Management's role includes setting objectives, developing strategies, and monitoring the progress of CSR activities. This responsibility is outlined in various frameworks and guidelines for corporate social responsibility, emphasizing the need for management to take an active role in CSR implementation and oversight. References:

* IIA Practice Guide: Internal Audit's Role in Corporate Social Responsibility

* ISO 26000: Guidance on Social Responsibility

NEW QUESTION: 616

Which of the following survey questions would be most effective to identify ethics violations within the organization?

- A.** Do your coworkers have the knowledge, skills, and training needed to perform their job duties?
- B.** Do you have sufficient resources, tools, and time to accomplish your work objectives?
- C.** Are the performance targets in your department realistic and attainable?
- D.** Does your supervisor comply with laws and regulations affecting the organization?

Answer: D (LEAVE A REPLY)

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NEW QUESTION: 617

Which of the following are components of the COSO enterprise risk management framework?

1. Objective setting.
2. External environment.
3. Data collection.
4. Control activities.

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

Answer: (SHOW ANSWER)

NEW QUESTION: 618

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

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

Answer: B (LEAVE A REPLY)

NEW QUESTION: 619

When dealing with various stakeholders which of the following is true regarding an internal auditor's responsibility to remain objective and independent?

- A. When deciding between conflicting reports of a control's performance from a control operator and the operator's manager the internal auditor should generally believe the manager
- B. Some audit issues may remain unremediated and unreported if management will accept recommendations that the internal auditor deems more important
- C. The internal auditor may initially disagree with management's acceptance of a risk, but reevaluate and agree with management's judgment after further discussion
- D. When working on business unit audits it is sometimes sufficient for the internal auditor to report deficiencies only to the unit manager when remediation is not complex

Answer: C (LEAVE A REPLY)

The statement that the internal auditor may initially disagree with management's acceptance of a risk, but reevaluate and agree with management's judgment after further discussion, is true. This scenario reflects the dynamic nature of risk assessment and management discussions where the auditor, after a comprehensive evaluation and consideration of new information or perspectives, might align with management's decision regarding risk acceptance.

IIA's International Standards for the Professional Practice of Internal Auditing regarding objectivity and professional judgment.

NEW QUESTION: 620

Some of an organization's payroll transactions were batch posted to the payroll file but were not uploaded correctly to the general ledger file on the mainframe. The best control to detect this type of error would be:

- A. Edit controls on the payroll file.
- B. Appropriate segregation of duties for batch approval.
- C. Reconciliation of paychecks to the bank account.
- D. Validation of hash totals.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 621

Which fraudulent act is designed primarily to benefit the organization?

- A. Fictitious sale or assignment of assets.
- B. Authorization of payment for hours not worked.
- C. Theft or misappropriation of funds.
- D. Acceptance of bribes or kickbacks.

Answer: A (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 622

The internal auditor obtained large volumes of transaction history data for accounts on which he suspected that some fraudulent transactions occurred. Which of the following actions best demonstrates due professional care by the internal auditor?

- A. The internal auditor carefully scrutinized the data by manually reviewing each transaction to ensure that all irregularities were identified.
- B. The internal auditor employed the use of data analytics tools to sort, analyze, and detect anomalies in the data
- C. The internal auditor started the data analysis process by selecting a random sample of transactions on which to perform further tests.
- D. The internal auditor requested that the branch supervisor assist in identifying fraudulent transactions, as he was most familiar with the accounts being audited.

Answer: B (LEAVE A REPLY)

Employing the use of data analytics tools to sort, analyze, and detect anomalies in the data best demonstrates due professional care by the internal auditor. This approach allows for efficient and effective review of large volumes of data, enabling the auditor to identify patterns and irregularities that may indicate fraudulent transactions, while also adhering to the principles of competence and due care outlined in the IIA's standards. References: IIA Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 623

When performing benchmarking during the planning phase of a performance audit, an internal auditor should:

- A. Determine the current performance gap.
- B. Project future performance levels.
- C. Develop functional action plans.
- D. Identify comparative organizations.

Answer: D (LEAVE A REPLY)

Section: Volume B

NEW QUESTION: 624

The internal audit activity audited an organization's risk management function multiple times, and the recommendations that were made remain unaddressed by the head of risk management. Which of the following would be the next step for the internal audit activity?

- A.** The internal audit activity should add value by implementing the recommendations on management's behalf.
- B.** The chief audit executive (CAE) must discuss this matter with senior management and the board
- C.** The CAE should determine which recommendations to implement based on the severity of the associated risks.
- D.** The internal audit activity, led by the CAE. should assume responsibility for risk management function.

Answer: ([SHOW ANSWER](#))

If the recommendations made by the internal audit activity regarding the organization's risk management function remain unaddressed, the next step should be for the chief audit executive (CAE) to discuss this matter with senior management and the board. This discussion aims to ensure that senior leaders are aware of the unaddressed risks and can take necessary actions to address the internal audit's findings effectively.

References: The IIA's International Standards for the Professional Practice of Internal Auditing, which stipulate the CAE's responsibilities in communicating significant risk exposures and control issues to senior management and the board.

NEW QUESTION: 625

The first stage in the development of a crisis management program is to:

- A.** Formulate contingency plans.
- B.** Conduct a risk analysis.
- C.** Create a crisis management team.
- D.** Practice the response to a crisis.

Answer: **B** ([LEAVE A REPLY](#))

Section: Volume C

Explanation/Reference:

NEW QUESTION: 626

According to the 11A Code of Ethics, which of the following is required with regard to communicating results?

- A.** The internal auditor should present material information to appropriate personnel within the organization without revealing confidential matters that could be detrimental to the organization.
- B.** The internal auditor should disclose all material information obtained by the date of the final engagement communication.
- C.** The internal auditor should obtain all material information within the established time and budget parameters.

D. The internal auditor should reveal material facts that could potentially distort the reporting of activities under review.

Answer: (SHOW ANSWER)

According to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards)

2420.A1, it is stated that the internal auditor must disclose all material information obtained by the date of the final engagement communication, which could impact the engagement conclusion or decision-making process. This ensures that all relevant facts are communicated to stakeholders appropriately.

International Standards for the Professional Practice of Internal Auditing (Standards)
2420.A1

NEW QUESTION: 627

Which of the following best ensures an internal audit activity has the ability to render impartial and unbiased assessments?

- A.** Organizational knowledge and skills.
- B.** Supervision of the chief audit executive (CAE) by senior management.
- C.** CAE certification.
- D.** Organizational status and objectivity.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 628

An employee is more likely to commit fraud if which of the following red flags are present?

The employee believes that he is being underpaid and deserves a higher salary.

The employee is close to retirement and has expressed a desire to take an expensive trip around the world.

The employee has personal financial problems and seems very unhappy.

The employee is spending much more time at the office than usual and has been asking about opportunities for professional advancement.

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

Answer: A (LEAVE A REPLY)

NEW QUESTION: 629

The chief audit executive (CAE) wants to ensure that there are sufficient resources available to fulfill the responsibilities of the internal audit activity in the coming year. Which statement describes the most logical sequence of events for the CAE to undertake in order to achieve this objective?

- A. Confirm audit plan; confirm budget; review existing resources; identify outstanding resource requirements.
- B. Review prior year audit plan; review existing resources; confirm new audit plan; confirm budget.
- C. Confirm budget; review existing resources; obtain any new resources required; confirm new audit plan.
- D. Review results of prior year audit plan; adjust current plan accordingly; hire required resources; confirm budget.

Answer: (SHOW ANSWER)

Section: Volume C

NEW QUESTION: 630

Which of the following elements should an auditor recommend for inclusion in an organization's code of ethics?

- I.Ethics should vary with local customs in the organization's foreign operations.
- II.Whistle-blowing should be discouraged because it can cause distrust among employees and false accusations which waste organizational resources on investigations.
- III.Ethical behavior should not be incorporated into performance evaluations because it is too subjective and controversial.

- A. I only.
- B. None of the above.
- C. II only.
- D. I, II, and III.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 631

When reviewing management reports to the board of directors, the internal audit activity should:

- A. Evaluate the process used to prepare the management reports.
- B. Compare to prior-period reports for consistency.
- C. Maintain supporting documentation for the management reports.
- D. Tie all financial numbers in the reports to the general ledger.

Answer: (SHOW ANSWER)

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NEW QUESTION: 632

At a construction company, supervisors are entitled to bonus payments if there are no safety rule violations on their teams. There are several channels available for workers to report accidents and violations, and all reported violations are investigated. Bonus payment calculations are approved by managers and the head of safety. Which of the controls best addresses the risk that supervisors will conceal accidents on their teams in order to receive the bonus?

- A. The investigation of all reported violations
- B. The authorization process for bonus calculations
- C. The variety of reporting channels
- D. The presence of safety rules

Answer: A (LEAVE A REPLY)

The control that best addresses the risk that supervisors might conceal accidents to receive bonuses is the investigation of all reported violations. This control ensures that incidents are independently verified and assessed, reducing the possibility for supervisors to manipulate or hide safety data to qualify for bonuses.

References: Best practices in fraud and misconduct control, which often emphasize the importance of independent investigations to verify compliance and enforce accountability.

NEW QUESTION: 633

According to IIA guidance, which of the following scenarios demonstrates an internal auditor exercising due professional care?

When auditing investments, the auditor identified instruments with which he was unfamiliar. He decided not to select that type of investment in his sample, as he did not have the knowledge needed to

- A. perform a proper assessment.
- B. An auditor in charge needed to have testing completed by the end of the month, but was behind schedule. He identified a junior auditor to conduct the work for him on a complex area of the organization.
- C. An auditor was reviewing inventory counts conducted by the warehouse staff. One truck containing an immaterial amount of inventory was off-site and wasn't verified by the auditor.
- D. An auditor visited a plant that produces a significant portion of the organization's inventory. The day he arrived, the plant manager was out sick, so the auditor issued the report without interviewing the manager.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 634

A receiving department receives copies of purchase orders for use in identifying and recording inventory receipts.

The purchase orders list the name of the vendor and the quantities of the materials ordered.

A possible error that this system could allow is:

- A. Payment to unauthorized vendors.
- B. Delay in recording purchases.
- C. Overpayment for partial deliveries.
- D. Payment for unauthorized purchases.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 635

According to IIA guidance, which of the following actions by the chief audit executive (CAE) best demonstrates the organizational independence of the internal audit activity?

- A. The CAE seeks senior management approval of the internal audit charter
- B. The CAE obtains senior management's approval to hire staff
- C. The CAE reports significant issues to the organization's CEO
- D. The CAE provides the board with an annual budget for approval

Answer: D ([LEAVE A REPLY](#))

The chief audit executive (CAE) best demonstrates the organizational independence of the internal audit activity by providing the board with an annual budget for approval. This action emphasizes the independence from management by ensuring the internal audit budget and resource allocations are directly overseen by the board, thus maintaining an independent status within the organization. References: IIA Standard 1110 - Organizational Independence

NEW QUESTION: 636

Which of the following circumstances would most likely be considered a potential red flag for fraud by the internal audit activity?

- A. The monthly payroll reports are not vetted to ensure terminated employees have been removed from the payroll system
- B. The volume of nonroutine journal entries has steadily increased over time.
- C. The database of approved suppliers has not been reviewed the last year
- D. The recent employee survey indicates that some employees remain unaware of the organization's whistleblower hotline.

Answer: A ([LEAVE A REPLY](#))

The most likely potential red flag for fraud by the internal audit activity in the given scenarios is when monthly payroll reports are not vetted to ensure terminated employees have been removed from the payroll system. This situation can lead to payments to non-existent ("ghost") employees, a common fraud scheme, and represents a significant control weakness that could be exploited for fraudulent purposes.

NEW QUESTION: 637

When beginning an engagement to assess the effectiveness of the organization's newly revamped risk management processes, which of the following should internal auditors review first?

- A. Existing risk assessment and identification processes.
- B. Key risk disclosures in the annual report.
- C. Risk mitigation plans and risk responses.
- D. Organizational strategy and business plans.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 638

An internal auditor failed to identify transactions between the parent organization and a subsidiary.

What is the most likely reason for the failure?

- A. The auditor misunderstood the audit objectives.
- B. The auditor lacked professional skepticism.
- C. The auditor's fieldwork was not properly supervised.
- D. The auditor lacked an understanding of the organization.

Answer: ([SHOW ANSWER](#))

One of the possible reasons for the failure to identify transactions between the parent organization and a subsidiary is that the auditor did not have sufficient knowledge of the group structure, the consolidation process, and the related party disclosure requirements². The auditor should obtain an understanding of the entity and its environment, including its internal control, as part of the risk assessment procedures³. This would help the auditor to identify and assess the risks of material misstatement due to related party transactions, and design and perform appropriate audit procedures to address those risks⁴.

References:

1: IAS 24 - Related Party Disclosures⁵, p. 1 2: Group audit issues | P7 Advanced Audit and Assurance | ACCA ...², p. 1 3: INTERNATIONAL STANDARD ON AUDITING 315 (REVISED) IDENTIFYING AND ... - IFAC¹, p. 1 4: ISA 550 Related Parties - IAASB, p. 1

NEW QUESTION: 639

Which of the following is not part of the five-attribute approach to developing documentation for an audit observation?

- A. Effect.
- B. Condition.
- C. Recommendation.
- D. Management response.

Answer: D ([LEAVE A REPLY](#))

NEW QUESTION: 640

An internal auditor is finalizing an audit report on the effectiveness of the organization's overall system of internal control. Several audit tests were performed, and the only issue identified was that the CEO frequently asks employees to make exceptions or bypass the organization's standard written policies and procedures.

Which of the following conclusions is most appropriate for the auditor to report?

- A.** The auditor should indicate that the system of internal control is not effective.
- B.** The auditor should indicate that the system of internal control is generally effective, except for the minor issue identified.
- C.** The auditor should indicate that the system of internal control is effective.
- D.** The auditor cannot express a conclusive opinion in the audit report.

Answer: (SHOW ANSWER)

When the CEO frequently bypasses written policies and procedures, it indicates a significant deficiency in the effectiveness of the organization's system of internal control. This behavior can undermine the control environment and set a precedent that policies and procedures can be disregarded, thereby affecting the overall control culture of the organization. In such cases, the auditor should report that the system of internal control is not effective. References: IIA guidance on evaluating the effectiveness of an organization's system of internal control.

NEW QUESTION: 641

Which of the following is true of a horizontal flowchart as compared to a vertical flowchart?

- A.** It brings into sharper focus the assignment of duties and independent checks on performance.
- B.** It does not provide as broad a picture at a glance.
- C.** It provides more room for written descriptions that parallel the symbols.
- D.** It is usually longer.

Answer: (SHOW ANSWER)

NEW QUESTION: 642

The chief audit executive (CAE) wants to ensure that there are sufficient resources available to fulfill the responsibilities of the internal audit activity in the coming year. Which statement describes the most logical sequence of events for the CAE to undertake in order to achieve this objective?

- A.** Review prior year audit plan; review existing resources; confirm new audit plan; confirm budget.
- B.** Confirm budget; review existing resources; obtain any new resources required; confirm new audit plan.
- C.** Review results of prior year audit plan; adjust current plan accordingly; hire required resources; confirm budget.

D. Confirm audit plan; confirm budget; review existing resources; identify outstanding resource requirements.

Answer: (SHOW ANSWER)

NEW QUESTION: 643

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. 3 only

B. 2 only

C. 1 only

D. 1 and 2 only

Answer: A (LEAVE A REPLY)

NEW QUESTION: 644

To develop greater internal auditing expertise, the chief audit executive (CAE) has been assigning the same relatively inexperienced team of internal auditors to a series of engagements spanning several months. Is this practice consistent with the Standards?

A. Yes. The CAE is promoting the professional development of the staff.

B. No. The team should collectively possess the competencies appropriate for the engagements.

C. Yes. The experience will quickly build specialized skills and competencies.

D. No. Teams should be comprised of both experienced and inexperienced auditors.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 645

An employee accepts cash payments from customers and does not record the sale. This is an example of which of the following types of fraud?

A. Asset misappropriation.

B. Skimming

C. Corruption.

D. Lapping.

Answer: (SHOW ANSWER)

Skimming is the type of fraud that involves an employee accepting cash payments and failing to record the sales, thereby diverting the cash for personal use. This kind of fraud occurs before the transaction is recorded in the accounting records, making it particularly stealthy since it does not directly affect the accounting system.

Fraud classification and types in internal audit literature

NEW QUESTION: 646

Which of the following actions should the internal audit activity take during an audit engagement when examining the effectiveness of risk management processes?

- A. Evaluate how the organization manages fraud risk.
- B. Establish procedures for improving risk management processes.
- C. Ensure risk responses are aligned with industry standards.
- D. Verify that organizational objectives are aligned with each department's objectives.

Answer: (SHOW ANSWER)

During an audit engagement that examines the effectiveness of risk management processes, the internal audit activity should evaluate how the organization manages fraud risk. This approach ensures that the organization's risk management practices are comprehensive and effectively address all significant areas of risk, including the potential for fraud.

The Institute of Internal Auditors (IIA) - International Standards for the Professional Practice of Internal Auditing, especially those related to risk management.

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NEW QUESTION: 647

Which of the following describes the internal audit activity's most appropriate role in an organization's risk management process?

- A. Reporting to the board on management's assessment of current risks
- B. Establishing a risk management policy and framework for the organization
- C. Assigning responsibility for identifying and managing significant risks
- D. Developing key controls to mitigate risks across the organization

Answer: (SHOW ANSWER)

The most appropriate role for internal audit in an organization's risk management process is reporting to the board on management's assessment of current risks. This role involves providing assurance on the effectiveness of the organization's risk management processes, including the accuracy and effectiveness of management's risk assessment. Internal audit should not be directly involved in establishing risk management frameworks or developing controls, as these are management responsibilities.

The Institute of Internal Auditors (IIA) - Standards and Guidance on Risk Management

NEW QUESTION: 648

Which of the following scenarios best illustrates due professional care?

- A.** An internal auditor who previously worked in the payroll department within the last year was intentionally excluded by the chief audit executive from the audit team assigned to a payroll audit
- B.** While performing a payroll audit an auditor became skeptical about significant payments made to a manager. The auditor sought to determine whether these payments were reasonable through discussion with a manager in a different department in the organization
- C.** The head of the payroll department being audited is a business partner of the engagement supervisor. During the audit the engagement supervisor sought to maintain his objectivity by not participating in fieldwork
- D.** An auditor assigned to a payroll audit was unable to reperform some complex payroll computations for a small number of employees. The sum of these payments was below the materiality thresholds provided so the auditor did not perform further tests

Answer: A (LEAVE A REPLY)

Due professional care involves the exercise of professional judgment and the application of care that an ordinarily prudent person would use under the circumstances. In scenario A, the chief audit executive demonstrates due professional care by excluding an auditor who previously worked in the payroll department from the audit team assigned to audit that area. This action avoids conflicts of interest and ensures the objectivity of the audit, aligning with IIA guidelines on independence and objectivity in internal auditing.

References:

* IIA Standard 1100: "Independence and Objectivity"

NEW QUESTION: 649

Which of the following indicates an appropriate disclosure of a potential nonconformance with the Standards?

- A.** An external assessment of the internal audit activity was last performed six years ago.
- B.** The internal audit activity has been in existence for four years but has not performed an external assessment.
- C.** An internal assessment is not performed every year.
- D.** The internal audit activity has been in existence for two years and has documented only an internal assessment.

Answer: (SHOW ANSWER)

An appropriate disclosure of potential nonconformance with the Standards would be that an external assessment of the internal audit activity was last performed six years ago. According to IIA standards, external assessments must be conducted at least once every five years. Failing to perform an external assessment within this timeframe constitutes nonconformance with the Standards.

IIA Standard 1312 - External Assessments, which requires that external quality assessments be performed at least once every five years to ensure conformity with the Standards.

NEW QUESTION: 650

Which of the following is an appropriate consideration by the auditor when preparing an engagement program for a human resource audit?

- A. State the work steps in the form of questions.
- B. Include in the audit program certain audit tests requested by audit client.
- C. Defer preparation of the audit program after the field work.
- D. Use standard audit program for HR from previous years.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 651

Which of the following is a legitimate role for the internal audit activity in the organization's risk management process'?

- A. Championing the establishment of a risk management framework
- B. Creating and implementing new risk management processes
- C. Maintaining sole responsibility for risk management within the organization
- D. Setting the risk appetite of the organization

Answer: A (LEAVE A REPLY)

According to the Institute of Internal Auditors (IIA), the internal audit activity can play several roles in risk management, but its involvement should be advisory and facilitative in nature. The most appropriate role from the given options for the internal audit activity in an organization's risk management process is championing the establishment of a risk management framework. This includes advocating for risk management throughout the organization and helping management establish and improve the risk management framework without taking on management responsibilities, such as setting risk appetite or maintaining sole responsibility for risk management.

IIA Position Paper: "The Role of Internal Auditing in Enterprise-wide Risk Management"

NEW QUESTION: 652

Senior management has decided to adopt the key principles approach of the ISO 31000 risk management framework. According to IIA guidance, which of the following principles is most appropriate when implementing the risk management process in a dynamic agency?

- A.** The risk management process should use a formal technique to consider the consequence and likelihood of each risk.
- B.** The risk management process should be regularly reviewed and respond to changes in the environment, to remain relevant.
- C.** The risk management process, while evaluating risk, should develop a mechanism to rank the relative importance of each risk.
- D.** Everyone in the agency has a primary responsibility for identifying and managing risks as part of the risk management process.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 653

Risk assessments are valuable to the internal audit activity's planning process because they assist in:

- A.** Eliminating all areas with low risk from the audit plan.
- B.** Educating management on the importance of keeping the internal audit activity informed of organizational changes.
- C.** Identifying the audit universe or auditable activities that need to be reviewed.
- D.** Identifying risks that management and the internal auditors have overlooked.

Answer: ([SHOW ANSWER](#))

Section: Volume B

Explanation

NEW QUESTION: 654

What is audit risk?

- A.** Internal and external risk factors that exist when there are no controls implemented.
- B.** The amount of risk that is reduced through risk management operations.
- C.** An incorrect conclusion based on evidence uncovered during an audit.
- D.** The risk that remains after management has executed risk management activities.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 655

A senior manager asks the chief audit executive (CAE) to explain why statistical sampling is the best method to use in conducting an internal audit. Which advantages should the CAE point to in order to justify the internal audit activity's (IAA) use of statistical sampling?

- A.** Statistical sampling sets limits on resources used for the IAA, allows for a subjective interpretation of the IAA's sampling results, and supports The Institute of Internal Auditors' requirements for using questionnaires as a sampling tool.
- B.** Statistical sampling itself identifies root causes of issues, utilizes a qualitative method for analyzing results, and supports engagement objectives through the

C. Statistical sampling allows for evaluation of all organizational data at once, increases the likelihood that risks are immediately identified, and does not require a level of tolerable misstatement or margin of error.

D. Statistical sampling allows for the selection of a minimum sample size, provides a quantitative expression of the IAA's sampling results, and supports extrapolation.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 656

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

A. The charter should describe the purpose and authority of the internal audit activity, consistent with the Standards.

B. Senior management should approve the charter before it is submitted to the board.

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: B (LEAVE A REPLY)

NEW QUESTION: 657

Which of the following is true regarding the purpose of the COSO enterprise risk management framework?

1. It is a process that is ongoing and flows throughout the organization.

2. It contributes to the formulation of the organization's mission and vision.

3. It enables internal audit to provide reasonable assurance to an organization's management and the board.

4. It enables the management of risks within an organization's risk appetite.

A. 1, 2, and 3 only

B. 1, 3, and 4 only

C. 2, 3, and 4 only

D. 1, 2, and 4 only

Answer: B (LEAVE A REPLY)

NEW QUESTION: 658

Which of the following statements best illustrates why internal auditors assess soft controls?

A. Assessing soft controls are an effective method of assessing risk related to personnel.

B. Assessing soft controls, as opposed to hard controls, makes it easier to evaluate operating effectiveness.

C. Assessing soft controls can help internal auditors in undertaking root-cause analysis.

D. Assessing soft controls provides more objective information than assessing hard controls.

Answer: C (LEAVE A REPLY)

Assessing soft controls can help internal auditors in undertaking root-cause analysis because soft controls, such as corporate culture and employee behavior, often provide insights into the underlying causes of observed deficiencies. By evaluating these soft controls, auditors can identify why certain hard controls may be failing and what might be influencing employee actions and attitudes, thus facilitating a more effective audit. References: The Institute of Internal Auditors (IIA) guidance on behavioral and cultural audits and risk management practices.

NEW QUESTION: 659

An internal auditor plans to use an analytical review to verify the correctness of various operating expenses in a division. The use of an analytical review as a verification technique would not be a preferred approach if.

- A.** The auditor notes strong indicators of a specific fraud involving this account.
- B.** The company has relatively stable operations which have not changed much over the past year.
- C.** The auditor would like to identify large, unusual, or non-recurring transactions during the year.
- D.** The operating expenses vary in relation to other operating expenses, but not in relation to revenue.

Answer: (SHOW ANSWER)

Section: Volume A

NEW QUESTION: 660

An internal auditor was offered expensive tickets to a sporting event by the manager of an area that she was currently auditing. The auditor politely declined. Which of the following fundamental principles of the IIA Code of Ethics did she display?

- A.** Independence.
- B.** Objectivity.
- C.** Confidentiality.
- D.** Competency.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 661

In order for an internal auditor to assess the opportunity for fraud to occur in an organization, which of the following does the auditor first need to understand?

- A.** Fraud prevention.
- B.** Fraud detection.
- C.** Corporate culture.

D. Forensic analysis techniques.

Answer: C (LEAVE A REPLY)

Understanding the corporate culture is fundamental for an internal auditor assessing the opportunity for fraud within an organization. Corporate culture influences how rules, norms, and behaviors are developed and enforced. It provides context to the risk environment and the potential for fraud to occur, facilitating more targeted and effective audit strategies focused on fraud risks.

Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

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NEW QUESTION: 662

Which of the following would be a violation of the objectivity of a certified internal auditor?

Accepting a motivational book from a major vendor.

Attending a professional sporting event as the guest of a corporate supplier.

Performing an internal audit engagement for a division 18 months after having controllership responsibility for that division.

Designing and implementing a corporate-wide utilities cost containment program.

A. 2 and 4only

B. 2 and 3only

C. 1 and 3only

D. 1,3,and 4only

Answer: A (LEAVE A REPLY)

NEW QUESTION: 663

During an audit engagement, a junior staff internal auditor begins to suspect a fraud may have occurred involving a friend of the engagement supervisor. He reports his concerns to the engagement supervisor, who disagrees with his suspicions and directs him to continue with the engagement as planned. Given the circumstance, what is the most appropriate action for the junior auditor to take?

A. Document in the workpapers and expand testing.

B. Continue with the engagement as planned, per the more senior auditor.

C. Report the suspected fraud to law enforcement officials and seek financial restitution.

D. Escalate the concern to the chief audit executive.

Answer: D (LEAVE A REPLY)

In cases where a junior auditor suspects fraud involving an engagement supervisor's associate and the supervisor dismisses these concerns, the most appropriate and ethical action is to escalate the issue to a higher authority within the audit function, such as the chief audit executive (CAE). This ensures that the concern is objectively evaluated and that the auditor adheres to professional standards of independence and objectivity. References: Institute of Internal Auditors (IIA) - Code of Ethics and International Standards for the Professional Practice of Internal Auditing

NEW QUESTION: 664

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. Copies of deposit slips.
- B. Copies of sales invoices.
- C. Bank statements.
- D. Customer confirmation letters.

Answer: (SHOW ANSWER)

NEW QUESTION: 665

Who is responsible for setting the risk appetite?

- A. External auditors.
- B. Chief risk officer.
- C. Operations management.
- D. Board of directors.

Answer: D (LEAVE A REPLY)

The board of directors is responsible for setting the risk appetite of the organization. They define the level and type of risk the organization is willing to accept in pursuit of its goals and objectives. This strategic role ensures that the organization's risk management framework aligns with its long-term vision and governance structure.

IIA guidance on governance and risk management

NEW QUESTION: 666

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. \$25, 000
- B. \$45, 000
- C. \$33, 750
- D. \$11, 250

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 667

What is an appropriate first step in an internal auditor's fraud risk assessment to evaluate how the organization manages such risk?

- A. Identify potential fraud scenarios
- B. Determine fraud risk responses
- C. Develop preventive and detective controls
- D. Assess the impact and likelihood of fraud risks

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 668

Which of the following would be a preventive control for helping to manage fraud in an organization?

- A. Reviews of reports to determine which issued payments lack evidence of supervisory review.
- B. A monthly review of new vendors performed by management for reasonableness.
- C. Bank reconciliations performed on a monthly basis by the accounting department.
- D. A code of conduct and whistleblower policy that must be signed by all employees annually.

Answer: D ([LEAVE A REPLY](#))

Preventive controls are designed to prevent fraud or errors before they occur. A code of conduct and whistleblower policy signed by all employees annually helps to establish ethical behavior standards and provides a mechanism for reporting unethical behavior, thereby preventing potential fraud. References:

* Institute of Internal Auditors (IIA) Standards on Internal Control and Fraud Prevention.

* COSO Internal Control Framework.

NEW QUESTION: 669

According to IIA guidance, which of the following statements is true regarding the internal audit activity's quality assurance and improvement program (QAIP)?

- A. Internal assessments rely solely on the review of completed audit engagements for demonstrated performance
- B. The chief audit executive is responsible for assessing the suitability and competence of an external assessor.

C. QAIP results must first be discussed with the board and approval obtained for distribution to senior management

D. At the board's discretion, the frequency of external assessments can exceed the five-year guideline

Answer: (SHOW ANSWER)

According to the IIA guidance, the frequency of external assessments can exceed the five-year guideline at the board's discretion. This flexibility allows organizations to conduct external quality assessments more frequently than the minimum standard based on their specific needs, risk exposure, or changes in the operating environment, ensuring continuous improvement and adherence to best practices in internal auditing.

Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 670

During an audit engagement of a large retail store, internal auditors noted significant discrepancies between available inventory and sales and suspect an abuse of cash register refunds and voids. Which of the following would be the most effective preventative control to reduce these losses?

A. Analyze voids and refunds by employee, credit card number, and amount for unusual numbers, amounts, or patterns.

B. Ensure that returned merchandise is restocked to shelves or sent to the manufacturer by an independent employee.

C. Call a sample of customers who returned merchandise to test the legitimacy of the returns and check refund amounts.

D. Require that a manager use a reserved register code to approve voids or refunds.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 671

Which of the following best describes a proactive role for the internal audit activity with regard to the organization's ethics program?

A. Performing an annual organizationwide employee survey.

B. Conducting annual ethics training for all employees.

C. Reviewing all departmental ethics-related policies.

D. Becoming a voting member of the organization's internal ethics council.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 672

Due to heightened security challenges, a logistics services organization decides to exit one of the markets in which it operates. Which of the following best describes this approach to risk management?

A. Risk reduction.

B. Risk avoidance.

- C. Risk sharing.
- D. Risk acceptance.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 673

Which of the following would be the least desirable criteria against which to judge current operations of a company's treasury function?

- A. Finance textbook illustrations of generally accepted good treasury function practices.
- B. The operations of the treasury function as documented during the last audit engagement.
- C. Company policies and procedures delegating authority and assigning responsibilities.
- D. Codification of best practices of the treasury function in relevant industries.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 674

Which of the following practices is generally most effective to protect internal audit objectivity?

- A. Ensuring regular documentation of auditor skills and experience in the workpapers.
- B. Basing performance evaluations heavily on customer satisfaction surveys.
- C. Prohibiting auditors from accepting gifts from audit clients or potential clients.
- D. Ensuring that auditors have a balance of both operational and internal audit responsibilities.

Answer: C (LEAVE A REPLY)

Protecting the objectivity of internal auditors is a crucial aspect of maintaining the integrity and reliability of the internal audit function. According to the International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 1120: Individual Objectivity, internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. Prohibiting auditors from accepting gifts from audit clients or potential clients (Option C) is a clear measure to prevent conflicts of interest and ensure that auditors remain objective and free from undue influence. This practice is in line with maintaining the highest level of ethical standards as per the IIA's Code of Ethics. References:

* IIA Standards, Standard 1120: Individual Objectivity

* IIA Code of Ethics

NEW QUESTION: 675

Which of the following is an example of a detective control?

- A. Confirmation with suppliers and vendors.
- B. Auto-correct software functionality.
- C. Safety instructions.
- D. Automatic shut-off valve.

Answer: A ([LEAVE A REPLY](#))

NEW QUESTION: 676

Which of the following audit activities is within the scope of assurance activities as stated in the International Professional Practices Framework?

- A. Review a make-or-buy decision and report a recommendation to management for approval.
- B. Participate in negotiations for a corporate acquisition.
- C. Assess financing alternatives for a new generator.
- D. Perform an evaluation of management's planning process.

Answer: ([SHOW ANSWER](#))

Section: Volume A

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NEW QUESTION: 677

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

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

Answer: C ([LEAVE A REPLY](#))

NEW QUESTION: 678

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

Answer: B ([LEAVE A REPLY](#))

NEW QUESTION: 679

Which of the following would be the best source of information for a chief audit executive to use in planning future audit staff requirements?

- A. Discussions of audit needs with executive management and the audit committee.
- B. Interviews with existing audit staff.
- C. Review of audit staff education and training records.
- D. Review of audit staff size and composition of similar-sized companies in the same industry.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 680

Which of the following statements is not true?

- A. The nature of consulting services that are performed by the internal audit activity should be defined in the audit charter.
- B. It is inappropriate for internal auditors to provide consulting services relating to operations for which they had previous responsibilities.
- C. A party outside the internal audit activity should oversee assurance engagements for functions over which the chief audit executive has responsibility.
- D. The chief audit executive should decline a consulting engagement if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or a part of the engagement.

Answer: B (LEAVE A REPLY)

Section: Volume C

NEW QUESTION: 681

When taken by a chief audit executive, which of the following actions would be most likely to prevent division management from exaggerating sales reports?

1. Announcing a series of internal audit engagements focusing on compliance with corporate sales-reporting policies.
 2. Asking the president and the board to issue a statement of corporate policy stressing the importance of accurate management reporting and the negative consequences of intentional misreporting.
 3. Setting up a hotline for employees to report fraudulent behavior anonymously,
 4. Assisting the controller in developing and monitoring a series of business process indicators, which are historically correlated with, but independent of sales.
- A. 1 and 2 only.
 - B. 2 and 3 only.
 - C. 2 and 4 only.
 - D. 3 and 4 only

Answer: A (LEAVE A REPLY)

NEW QUESTION: 682

Which of the following best illustrates the application of due professional care during an audit of the procurement department?

- A.** The internal auditor discovered an instance where management did not follow the standard bidding processes. The auditor assessed the validity of management's reasons for deviating from standard practice and the supporting documentation, and determined that the deviation was acceptable.
- B.** The internal auditor selected a sample of purchase orders with amounts greater than \$5,000, the threshold at which the organization requires a bidding process. The auditor obtained documentation of the bidding process for each purchase order in the sample.
- C.** The internal auditor analyzed bidding documents provided by management. Management indicated that the documents were purchase orders issued to a sole-source vendor. Based on the analysis and management's declaration, the internal auditor determined that the procurement process was effective.
- D.** The internal auditor began checking purchase requisitions for proper authorizations. He stopped when he discovered an instance of noncompliance, and he concluded the controls were ineffective.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 683

Which of the following would show appropriate disclosure of nonconformance with the Standards?

- A.** The CAE revealed to operational managers that he failed to appropriately consider risks while he was developing the audit plan.
- B.** The CAE discussed with the board an issue regarding the internal audit activity performing an IT engagement without proper skills and knowledge.
- C.** The chief audit executive (CAE) documented in the personnel file a critical conflict of interest involving an internal auditor on an upcoming contracting engagement.
- D.** The CAE met with the peer review team to discuss an internal auditor's failure to meet the annual requirements for continuing professional education.

Answer: ([SHOW ANSWER](#))

NEW QUESTION: 684

The level of authority for the internal audit activity is granted by which of the following?

- A.** The chief audit executive.
- B.** The internal audit charter.
- C.** The International Professional Practices Framework.
- D.** The IIA's Code of Ethics.

Answer: **B** ([LEAVE A REPLY](#))

The internal audit charter formally grants the internal audit activity its authority, as per IIA standards. It outlines the audit function's scope, responsibilities, and independence within the organization.

NEW QUESTION: 685

Which of the following statements best describes how the internal audit activity obtains reasonable assurance that significant risks in the organization are identified and assessed?

- A.** The internal auditors interview staff at various levels and determine whether the organization's objectives, significant risks, and risk appetite are articulated sufficiently.
- B.** The internal auditors evaluate the adequacy and timeliness of management's reporting of risk management results.
- C.** The internal auditors review recently completed risk assessments and related reports issued by senior management, external auditors, and other sources.
- D.** The internal auditors review the organization's strategic plan, business plan, and policies, and have discussions with the board and senior management.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 686

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

Answer: A (LEAVE A REPLY)

NEW QUESTION: 687

Which of the following situations is most likely to prompt the internal audit activity to disclose its nonconformance with the Standards?

- A.** One of the organization's senior internal auditors owns a side business, though to date, no sales have been made to this business.
- B.** The annual internal audit plan includes performance audits of main business processes, but reviews of high-risk development projects were not considered.
- C.** The internal audit activity committed to carrying out an audit of documentation on investment hedging, and a hedging expert was contracted to assist with the engagement.
- D.** A periodic quality self-assessment of the internal audit activity identified a number of improvement areas with regard to key performance indicators.

Answer: (SHOW ANSWER)

The internal audit activity must align its activities with the organization's risks. Not considering high-risk development projects in the audit plan could indicate nonconformance with the Standards, specifically regarding risk-based planning. The Standards require internal audit to consider all significant risks when developing the audit plan, and failing to do so may require disclosure of nonconformance. References: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2010 - Planning, and Standard 1300 - Quality Assurance and Improvement Program.

NEW QUESTION: 688

If earnings on financial statements for internal use only have been manipulated in the past, an internal auditor is likely to focus on which of the following?

- A. The proper accrual of payables at the end of the interim period.
- B. The timing of revenue recognition and the valuation of inventories.
- C. Whether accounting estimates are reasonable given past actual results.
- D. Whether there have been changes in accounting principles that materially affect the financial statements.

Answer: (SHOW ANSWER)

Section: Volume A

NEW QUESTION: 689

The internal audit activity is responsible for which of the following actions related to an organization's internal controls?

- A. Analyzing and advising regarding costs versus benefits of control activities,
- B. Attesting to fairness of financial statements.
- C. Mitigating risks affecting achievement of organizational objectives.
- D. Enabling opportunities affecting achievement of organizational objectives.

Answer: (SHOW ANSWER)

NEW QUESTION: 690

Which of the following best demonstrates that an internal auditor is applying due professional care when planning an assurance engagement?

- A. Assessing the risk of noncompliance with laws and regulations
- B. Following the policies as prescribed by the internal audit manual.
- C. Advising management of the area under review on how to mitigate internal control risks.
- D. Conducting the engagement on the presupposition that fraud exists.

Answer: (SHOW ANSWER)

Applying due professional care in planning an assurance engagement includes assessing the risks involved in the engagement area. An assessment of the risk of noncompliance with laws and regulations directly addresses the potential legal and regulatory exposures that could significantly impact the organization. This risk assessment helps ensure that the

audit plan is appropriately focused and aligned with key risks, demonstrating due professional care.

IIA standards on planning, which stipulate that due professional care includes an appropriate risk assessment.

NEW QUESTION: 691

Which statement accurately describes the authority of the internal audit activity as outlined in the audit charter?

- A.** The CAE shall provide senior management and the board with performance updates quarterly.
- B.** The internal audit activity shall maintain a quality assurance and improvement program in conformance with the Standards.
- C.** The chief audit executive (CAE) shall report directly to the board and administratively to the CEO.
- D.** The internal audit team shall have full access to the organization's records, physical property, and personnel required to conduct audit engagements.

Answer: D (LEAVE A REPLY)

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NEW QUESTION: 692

Which of the following controls within a spreadsheet would address the risk of logic errors?

The spreadsheet contains formulas that foot and cross-foot data.

The spreadsheet is locked to protect cell formulas from being inadvertently changed.

Spreadsheets are included in nightly backup processes.

Check-in and check-out software is used to manage version control.

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

Answer: (SHOW ANSWER)

NEW QUESTION: 693

In order to ensure that the internal auditors have the objectivity required by the Standards, the chief audit executive should:

- A.** Demonstrate willingness to include in engagement final communications all matters believed to be important.
- B.** Require all auditors to sign statements attesting to their independent mental attitudes and honest belief in their work product.
- C.** Appraise each auditor's performance on each audit assignment.
- D.** Carefully assign personnel to individual audit engagements and require auditors to disclose all conflicts of interest.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 694

According to IIA guidance, which of the following are considerations of due professional care when an internal auditor conducts a formal consulting engagement?

1. The complexity of the work required.
2. The needs and expectations of the client.
3. The potential value of the engagement compared to the effort.
4. Information regarding assumptions and procedures to be employed.

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

Answer: C (LEAVE A REPLY)

Section: Volume F

NEW QUESTION: 695

Management is developing and implementing a risk and control framework for use throughout the organization. Which of the following elements should be included in the organization's control framework?

1. Appropriate levels of authority and responsibility.
2. Supervision of staff and appropriate review of work.
3. The seniority of management in the organization.
4. The ability to trace each transaction to an accountable and responsible individual.

- A.** 1,2, and 3.
- B.** 1.2, and 4.
- C.** 1.3, and 4.
- D.** 2, 3, and 4.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 696

Which of the following are typical management control activities?

- A. Reconciliation, planning, and inquiry.
- B. Reconciliation, planning, and documentation.
- C. Reconciliation, inquiry, and documentation.
- D. Planning, inquiry, and documentation.

Answer: C (LEAVE A REPLY)

Section: Volume D

NEW QUESTION: 697

What role, if any, should the internal audit activity have in the process of following up on observations and recommendations made by the external auditors?

- A. The internal audit activity should have no role in this process in order to ensure independence.
- B. The internal audit activity should become involved only if the chief audit executive has sufficient evidence that the follow-up is not occurring.
- C. The internal audit activity should review the adequacy and effectiveness of management's follow-up actions.
- D. The internal audit activity should become involved only if specifically requested by management or the board of directors.

Answer: C (LEAVE A REPLY)

Section: Volume B

NEW QUESTION: 698

Management is installing security cameras to identify unauthorized physical access to the organization's warehouse. This is an example of which of the following types of controls?

- A. Primary controls.
- B. Detective controls.
- C. Preventive controls
- D. Key controls.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 699

An internal audit activity is taking steps to promote professional development among the staff, and is in the process of implementing a mentorship program. According to HA guidance, which of the following is important for a successful mentorship program?

- A. It is best if the mentor is the chief audit executive.
- B. Mentor meeting documentation should be retained in personnel files.
- C. It should target both new hires and highly experienced staff.
- D. Meetings with mentors should be formal and scheduled.

Answer: C (LEAVE A REPLY)

According to IIA guidance on professional development, a successful mentorship program should be inclusive and beneficial for all levels of staff, from new hires to highly

experienced auditors. This approach ensures continuous learning and knowledge sharing across all experience levels, thereby enhancing the overall effectiveness and cohesion of the internal audit team. References: Institute of Internal Auditors (IIA) - Guidance on Continuing Professional Development and Mentorship Programs

NEW QUESTION: 700

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

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

Answer: D (LEAVE A REPLY)

NEW QUESTION: 701

When dealing with various stakeholders which of the following is true regarding an internal auditor's responsibility to remain objective and independent?

- A.** The internal auditor may initially disagree with management's acceptance of a risk, but reevaluate and agree with management's judgment after further discussion
- B.** Some audit issues may remain unremediated and unreported if management will accept recommendations that the internal auditor deems more important
- C.** When working on business unit audits it is sometimes sufficient for the internal auditor to report deficiencies only to the unit manager when remediation is not complex
- D.** When deciding between conflicting reports of a control's performance from a control operator and the operator's manager the internal auditor should generally believe the manager

Answer: A (LEAVE A REPLY)

NEW QUESTION: 702

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.** Objectivity.
- B.** Competency.

- C. Integrity.
- D. Confidentiality.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 703

While preparing the audit plan for an automobile manufacturing company, the chief audit executive (CAE) noted that the company's engineering department received a high risk ranking. However, the internal audit activity is understaffed, and current staff do not possess the necessary skills to adequately assess the effectiveness of the engineering department. What is the most appropriate course of action for the CAE to take?

- A. Include the engineering department on the audit plan, use the available internal audit resources to conduct the review, and exclude procedures that cannot be adequately assessed.
- B. Advise management to accept the assessed risk until the internal auditors are able to review the area adequately.
- C. Recruit internal auditors with the required competencies and wait until they are employed before including this audit on the internal audit plan.
- D. Proceed with a review of the engineering department but supplement the internal audit team with nonauditors from an external engineering company who have the required skills to assist

Answer: (SHOW ANSWER)

The most appropriate course of action for the CAE when facing a lack of internal audit staff with necessary skills to audit a high-risk area, like the engineering department, is to supplement the internal audit team with external experts who possess the required competencies. This approach ensures that the audit can be conducted effectively and comprehensively, allowing for an accurate assessment of risks and controls in the engineering department without delaying the review until new auditors can be hired and trained.

Institute of Internal Auditors (IIA) - International Professional Practices Framework (IPPF)

NEW QUESTION: 704

Which of the following risk management techniques best describes the strategy of obtaining insurance to protect against losses due to bad weather conditions?

- A. Risk avoidance
- B. Risk reduction
- C. Risk acceptance
- D. Risk sharing

Answer: (SHOW ANSWER)

Obtaining insurance to protect against losses due to bad weather conditions is a strategy of risk sharing. Risk sharing involves transferring a portion of the risk to another party, often through mechanisms like insurance, hedging, or outsourcing. By obtaining insurance,

an organization transfers the financial impact of adverse weather conditions to the insurer, thereby sharing the risk.

Risk avoidance (A) involves eliminating the risk entirely by not engaging in the activity that generates the risk. Risk reduction (B) refers to actions taken to decrease the likelihood or impact of the risk. Risk acceptance (C) means acknowledging the risk and deciding to bear the consequences without taking steps to mitigate it.

References:

* ISO 31000:2018 Risk Management - Guidelines

* COSO Enterprise Risk Management Framework

NEW QUESTION: 705

Auditors 1, 2, and 3 work out of various offices. Each must be assigned to one, and only one, of three audit locations (A, B, or C). The cost of sending each auditor to each location is listed below:

Audit Locations

Auditor 1

A

B

C

Auditor 2

\$200

\$300

\$400

Auditor 3

\$400

\$300

\$600

Auditor 4

\$200

\$200

\$500

The minimum cost with which this assignment can be accomplished is:

A. \$900

B. \$800

C. \$1, 100

D. \$1, 000

Answer: A (LEAVE A REPLY)

NEW QUESTION: 706

Internal auditors who are concerned with potential risks due to the mishandling of records or transactions should take into consideration:

- A. The history of losses suffered by the company.
- B. The results of prior risk assessments.
- C. The type and nature of the activities to be examined.
- D. Whether employees in key positions of trust are bonded.

Answer: C (LEAVE A REPLY)

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NEW QUESTION: 707

Which of the following represents the most effective governance structure?

- I. Operating Executive Internal Management Management Auditing Responsibility for risk Oversight role Advisory role
- II. Oversight role Responsibility for risk Advisory role
- III. Responsibility for risk Advisory role Oversight role
- IV. Oversight role Advisory role Responsibility for risk

- A. IV
- B. II
- C. III
- D. I Only

Answer: D (LEAVE A REPLY)

NEW QUESTION: 708

Which of the following engagements would be considered an appropriate consulting service?

- A. The internal audit activity participates in a cosourcing arrangement with an IT audit firm to test information systems security.
- B. The internal audit activity facilitates biannual training of the risk management team in risk identification methodologies.
- C. The internal audit activity partners with external auditors annually to complete fieldwork required as a part of the external audit exercise.
- D. The internal audit activity of a commercial bank routinely performs branch audits for compliance with regulations.

Answer: B (LEAVE A REPLY)

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