



IIA

Exam Questions IIA-CRMA-ADV

Certification in Risk Management Assurance

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NEW QUESTION 1

- (Topic 1)

Why are preventative controls generally preferred to detective controls?

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

Answer: A

NEW QUESTION 2

- (Topic 1)

While reviewing the workpapers of a new auditor, the auditor in charge discovered that additional audit procedures might be necessary. According to IIA guidance, which of the following would be most relevant for the auditor in charge to consider when making this decision?

- A. Resource management.
- B. Coordination.
- C. Due professional care.
- D. Engagement supervision.

Answer: C

NEW QUESTION 3

- (Topic 1)

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: C

NEW QUESTION 4

- (Topic 1)

Which of the following is the most significant disadvantage of using checklists to evaluate internal controls?

- A. They serve as a reminder of what controls should exist in a process.
- B. They require yes/no responses to specific questions, not open-ended responses.
- C. They do not capture all controls that may exist.
- D. They are useful in assessing risk.

Answer: C

NEW QUESTION 5

- (Topic 1)

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

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

Answer: B

NEW QUESTION 6

- (Topic 1)

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

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

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

Answer: D

NEW QUESTION 7

- (Topic 1)

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

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

Answer: B

NEW QUESTION 8

- (Topic 1)

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

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

Answer: D

NEW QUESTION 9

- (Topic 1)

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

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

Answer: C

NEW QUESTION 10

- (Topic 1)

When internal auditors are preparing workpapers for the testing stage of an engagement, which of the following guidelines should be observed?

- * 1. Include copies of all client files that were reviewed for the audit.
- * 2. Avoid the use of professional, industry-appropriate jargon and technical terms.
- * 3. Indicate the original sources of all data and information used in the workpapers.
- * 4. Leave blank space for cross-references to be completed during the post-audit process.

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

Answer: C

NEW QUESTION 10

- (Topic 1)

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

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

Answer: B

NEW QUESTION 14

- (Topic 1)

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

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

Answer: D

NEW QUESTION 17

- (Topic 1)

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

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

Answer: A

NEW QUESTION 22

- (Topic 1)

Which of the following best describes the assessment of risks?

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

Answer: B

NEW QUESTION 27

- (Topic 1)

Which of the following statements describes a control failure that is not directly attributable to a customer billing application?

- * 1. End users have raised a number of concerns regarding data integrity.
- * 2. An untested program change is transferred from the test environment to production.
- * 3. Purchase history does not reconcile with accounts receivable for some customers.
- * 4. End user security is inadvertently granted to an unauthorized individual by management.

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

Answer: D

NEW QUESTION 30

- (Topic 1)

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. Reasonableness test.
- B. Regression analysis.
- C. Benchmarking.
- D. Trend analysis.

Answer: C

NEW QUESTION 33

- (Topic 1)

When an internal auditor applies due professional care to perform an assurance engagement, which of the following must she consider?

- * 1. Findings of the last audit engagement performed.
- * 2. Probability of significant errors, irregularities, or noncompliance.
- * 3. Extent of work needed to achieve engagement objectives.
- * 4. Cost of the engagement versus the potential benefits.

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

Answer: C

NEW QUESTION 38

- (Topic 1)

Which of the following is a preventive control?

- A. Creating an audit trail.
- B. Placing controls on physical access to inventory.
- C. Reconciling purchase orders with approvals.
- D. Reviewing expense accounts for irregularities.

Answer: B

NEW QUESTION 41

- (Topic 1)

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

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

Answer: D

NEW QUESTION 42

- (Topic 1)

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

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

Answer: A

NEW QUESTION 47

- (Topic 1)

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

Answer: C

NEW QUESTION 51

- (Topic 1)

While attending a conference, an internal auditor won an all-expense paid trip sponsored by a vendor of the internal auditor's organization.

Which of the following actions are most appropriate for the auditor to take?

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

Answer: B

NEW QUESTION 54

- (Topic 1)

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

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

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

Answer: A

NEW QUESTION 57

- (Topic 1)

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: C

NEW QUESTION 59

- (Topic 1)

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

NEW QUESTION 63

- (Topic 1)

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. A competent employee of an independent external organization that provides co-sourcing services to the IAA.
- C. An employee in an affiliated organization who has never worked directly with the IAA.
- D. An employee in the parent organization who has not had any previous contact with the IAA.

Answer: A

NEW QUESTION 68

- (Topic 1)

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. Corrective control.
- B. Preventive control.
- C. Detective control.
- D. Directive control.

Answer: A

NEW QUESTION 73

- (Topic 1)

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

NEW QUESTION 78

- (Topic 1)

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

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

Answer: C

NEW QUESTION 79

- (Topic 1)

What type of risk management strategy is being employed when an organization installs two firewalls to provide protection from unauthorized access to the network?

- A. Diversifying the risk that network access will not be available to legitimate, authorized users.
- B. Accepting the risk that there may be attempts at unauthorized access to the network.
- C. Avoiding the risk of having a direct network connection to un-trusted networks.
- D. Sharing the risk that either firewall could be compromised by hackers.

Answer: A

NEW QUESTION 83

- (Topic 1)

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

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

Answer: D

NEW QUESTION 84

- (Topic 1)

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

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

Answer: C

NEW QUESTION 87

- (Topic 1)

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

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

Answer: A

NEW QUESTION 89

- (Topic 1)

An internal auditor is reviewing employee travel data to identify opportunities to cut costs while ensuring adequate participation at conferences to support the organization's mission. Which of the following pieces of evidence would be sufficient for completing this task?

- A. A log from the last year that includes dates of travel, conference titles, and conference objectives, all of which correspond with employee names and costs per trip.
- B. A log that includes titles of conferences that all employees were invited to attend in the last year, along with the dates of those conferences and average costs per traveler.
- C. A log of conferences titles, dates of travel for each employee, and a detailed summary of conference objectives and how they relate to the organization's mission needs.
- D. A log of employee travel requests, which include the title of each conference, the conference objectives, anticipated dates of travel, and estimated costs.

Answer: A

NEW QUESTION 91

- (Topic 1)

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

NEW QUESTION 94

- (Topic 1)

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. Dating and initialing each workpaper provides evidence of review.
- C. Workpaper review allows for staff training and development.
- D. Workpapers may be amended during the review process.

Answer: A

NEW QUESTION 95

- (Topic 1)

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

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

Answer: C

NEW QUESTION 100

- (Topic 1)

According to the Standards, which of the following is not a consideration when exercising due professional care for an assurance engagement?

- A. The relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- B. The extent of assurance services necessary to ensure that all risks are identified.
- C. The cost of providing the assurance services in relation to potential benefits.
- D. The probability of significant errors, irregularities or instances of noncompliance.

Answer: B

NEW QUESTION 103

- (Topic 1)

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

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

Answer: D

NEW QUESTION 108

- (Topic 1)

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

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

Answer: B

NEW QUESTION 112

- (Topic 1)

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

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

Answer: C

NEW QUESTION 117

- (Topic 1)

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

- A. Risks in IT processes are best mitigated by individual controls.
- B. The overall focus of the framework is on significant controls in all critical IT applications.
- C. IT risks and related controls are operational and best identified using a bottom-up approach.
- D. Control process risks are found at multiple layers of the IT environment.

Answer: D

NEW QUESTION 120

- (Topic 1)

Allegations have been made that an organization's share price has been manipulated. Which of the following would provide an internal auditor with the most objective evidence in this case?

- A. Major shareholders of the organization.
- B. Large customers of the organization.
- C. Former members of management.
- D. Former financial consultants.

Answer: D

NEW QUESTION 124

- (Topic 2)

Which of the following is the primary engagement responsibility of an entry-level internal auditor?

- A. Leadership.
- B. Documentation.
- C. Analysis.
- D. Reporting.

Answer: C

NEW QUESTION 127

- (Topic 2)

An internal audit team is performing an audit of workplace accident claims.

Which of the following actions by the audit team best demonstrates due professional care?

- A. Having an occupational health officer on the engagement team.
- B. Determining that the claims have been classified properly.
- C. Placing reliance on medical reports from the injured worker's doctor.
- D. Reviewing claims to ensure all accidents actually occurred in the workplace.

Answer: A

NEW QUESTION 132

- (Topic 2)

Which of the following situations is most likely to impair internal audit objectivity?

- A. An internal auditor reports both functionally and administratively to the chief financial officer (CFO).
- B. An internal auditor, who was an accounts receivable intern for the organization three years prior, performs an audit of the accounts receivable cycle.
- C. According to policy, the internal auditor must obtain approval from the CFO prior to requesting information for internal audit purposes.
- D. An internal auditor performs an audit in a department that is led by the auditor's close friend.

Answer: D

NEW QUESTION 134

- (Topic 2)

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

NEW QUESTION 139

- (Topic 2)

Which of the following is an example of a detective control?

- A. Automatic shut-off valve.
- B. Auto-correct software functionality.
- C. Confirmation with suppliers and vendors.
- D. Safety instructions.

Answer: C

NEW QUESTION 140

- (Topic 2)

Which of the following are generally recognized as essential elements of a corporate social responsibility program?

- A. Human rights and the environment.
- B. Organizational governance and financial reporting.
- C. Fair operating practices and government regulation.
- D. Consumer issues and return on investment.

Answer: A

NEW QUESTION 143

- (Topic 2)

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annual snowfall for the coming winter. Which of the following best describes this type of risk?

- A. Residual.
- B. Net.
- C. Inherent.
- D. Accepted.

Answer: C

NEW QUESTION 148

- (Topic 2)

An assurance mapping exercise helps an organization do which of the following?

- * 1. Provide assurance to stakeholders that risks are managed and reported, and regulatory and legal obligations are met.
- * 2. Fulfill best practices in the industry.
- * 3. Identify and address any gaps in the risk management process.
- * 4. Identify fraud.

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

Answer: B

NEW QUESTION 151

- (Topic 2)

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

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

Answer: B

NEW QUESTION 152

- (Topic 2)

An internal auditor completed an audit of a bank's loan department and found all significant risks to be managed adequately through effective internal controls. Which of the following would be an appropriate conclusion to report to management?

- A. The residual risk is lower than or equal to the risk appetite.
- B. The residual risk is higher than or equal to the risk appetite.
- C. The inherent risk is lower than or equal to the risk tolerance.
- D. The inherent risk is higher than or equal to the risk tolerance.

Answer: A

NEW QUESTION 153

- (Topic 2)

According to COSO, which of the following describes a principle related to the control environment?

- A. The organization identifies and assesses changes that could significantly impact the system of internal control.
- B. The organization establishes appropriate authorities and responsibilities in the pursuit of objectives.
- C. The organization selects and develops control activities that contribute to the mitigation of risks.
- D. The organization performs evaluations to ascertain whether internal control components are present and functioning.

Answer: B

NEW QUESTION 155

- (Topic 2)

According to the IA Code of Ethics, which of the following statements best describes the principle of competency?

- A. Internal auditors shall perform their work with honesty, diligence, and responsibility.
- B. Internal auditors shall perform their work in accordance with the Standards.
- C. Internal auditors shall perform their work in accordance with the law and make disclosures expected by the law.
- D. Internal auditors shall be prudent in the use of information acquired while performing their work.

Answer: B

NEW QUESTION 156

- (Topic 2)

An organization has implemented a software system that requires a supervisor to approve transactions that would cause treasury dealers to exceed their authorized limit. This is an example of which of the following types of controls?

- A. Preventive controls.
- B. Detective controls.
- C. Soft controls.
- D. Directive controls.

Answer: A

NEW QUESTION 157

- (Topic 2)

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

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

Answer: A

NEW QUESTION 158

- (Topic 2)

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

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

Answer: B

NEW QUESTION 161

- (Topic 2)

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

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

Answer: B

NEW QUESTION 166

- (Topic 2)

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

- A. Internal assessments are conducted to benchmark the internal audit activity's performance against industry best practices.
- B. Internal assessments must be performed at least once every five years by a qualified assessor.
- C. An internal auditor may perform a peer review of a colleague's workpapers, as long as the auditor wasn't involved in the audit under review.
- D. Follow-up to ensure appropriate improvements are implemented is a recommended, but not mandatory, element of internal assessments.

Answer: C

NEW QUESTION 171

- (Topic 2)

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

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

Answer: D

NEW QUESTION 175

- (Topic 2)

An organization is facing a financial downturn and needs to impose major budget reductions to all departments. According to MA guidance, which of the following actions is most appropriate for the board to take to evaluate the potential impact on the internal audit activity?

- A. Ask management to determine which internal audit engagements are lower risk and could be considered for removal from the annual audit plan.
- B. Ask appropriate stakeholders for their opinion on the potential impacts of reducing the scope of the internal audit plan.
- C. Ask the chief audit executive to determine whether budgetary limitations impede the ability of the internal audit activity to execute its responsibilities.
- D. Ask The human resources department to determine how the annual compensation and salary of the audit staff could be adjusted to achieve savings.

Answer: C

NEW QUESTION 180

- (Topic 2)

Which of the following factors have the greatest influence on the independence of the internal audit activity?

- A. Quality assessments and cultural biases of the internal audit activity.
- B. Rotational assignments and familiarity of the internal audit activity.

- C. Employee incentives and self review of the internal audit activity.
- D. Organizational positioning and scope control of the internal audit activity.

Answer: D

NEW QUESTION 181

- (Topic 2)

Which of the following is an example of collusion?

- A. An employee includes a faked receipt in his expense claim, and the claim is signed by the employee's manager.
- B. A vendor inflates the price of an item and remits a portion of the excess to the purchasing manager.
- C. A vendor sends a duplicate invoice with a new invoice number, and the accounts payable system fails to detect the duplication.
- D. An employee works with the IT manager to develop a program for identifying duplicate invoice payments.

Answer: B

NEW QUESTION 182

- (Topic 2)

An internal auditor in a small broadcasting organization was assigned to review the revenue collection process. The auditor discovered that some checks from three customers were never recorded in the organization's financial records. Which of the following documents would be the least useful for the auditor to verify the finding?

- A. Bank statements.
- B. Customer confirmation letters.
- C. Copies of sales invoices.
- D. Copies of deposit slips.

Answer: D

NEW QUESTION 184

- (Topic 2)

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

Answer: B

NEW QUESTION 187

- (Topic 2)

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

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

Answer: C

NEW QUESTION 190

- (Topic 2)

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

NEW QUESTION 195

- (Topic 2)

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

- * 1. Review reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

- * 2. Determine the adequacy and effectiveness of the organization's systems of internal accounting and operating controls.
 - * 3. Participate in the planning and performance of audits of potential acquisitions with the organization's outside accountants and other members of the corporate staff.
 - * 4. Report to those members of management who should be informed of results of audit examinations, the audit opinions formed, and the recommendations made.
- A. 1 and 2.
B. 1 and 4.
C. 2 and 3.
D. 2 and 4.

Answer: A

NEW QUESTION 199

- (Topic 2)

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

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

Answer: C

NEW QUESTION 200

- (Topic 2)

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

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

Answer: A

NEW QUESTION 201

- (Topic 2)

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

NEW QUESTION 204

- (Topic 2)

When auditing the award of a major contract, which of the following should an internal auditor suspect as a red flag for a bidding fraud scheme?

- * 1. Subsequent change orders increase requirements for low-bid items.
- * 2. Material contract requirements are different on the actual contract than on the request for bids.
- * 3. A high percentage of employees are charged to indirect accounts.
- * 4. Losing bidders are hired as subcontractors.

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

Answer: D

NEW QUESTION 208

- (Topic 2)

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

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

Answer: D

NEW QUESTION 213

- (Topic 2)

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

NEW QUESTION 217

- (Topic 2)

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

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

Answer: B

NEW QUESTION 219

- (Topic 2)

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

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

Answer: B

NEW QUESTION 221

- (Topic 2)

According to IIA guidance, which of the following roles would be appropriate for an internal auditor regarding fraud risk?

- * 1. Identification.
- * 2. Mitigation.
- * 3. Remediation.
- * 4. Reduction.

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

Answer: B

NEW QUESTION 223

- (Topic 2)

Internal auditors must exercise due professional care by considering which of the following?

- * 1. Cost of assurance in relation to potential benefits.
- * 2. Adequacy and effectiveness of governance, risk management, and control processes.
- * 3. Management's competency level in the area being evaluated.
- * 4. Probability of significant errors, fraud, or noncompliance.

- 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

NEW QUESTION 227

- (Topic 2)

Which of the following is an example of a management control technique?

- A. A budget.
- B. A risk assessment.
- C. The board of directors.
- D. The control environment.

Answer: A

NEW QUESTION 230

- (Topic 2)

A government agency maintains a system of internal control, according to the COSO model, and has made a change to its employee performance reviews and rewards program. This change relates to which of the following components of COSO's internal control framework?

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

Answer: A

NEW QUESTION 234

- (Topic 2)

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

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

Answer: D

NEW QUESTION 238

- (Topic 2)

An internal audit activity includes in its audit reports the assertion that its work is performed in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). A recent external quality assessment concluded that the internal audit activity had substantial deficiencies that impact its overall operations. According to IIA guidance, which of the following is the most appropriate action for issuing future audit reports?

- A. Refrain from indicating that the internal audit activity operates in conformance with the Standards until the chief audit executive confirms that the internal audit activity has addressed all areas of nonconformance and the audit committee has been notified.
- B. Refrain from indicating that the internal audit activity operates in conformance with the Standards until another external assessment confirms that the significant areas of nonconformance have been addressed.
- C. Indicate that the internal audit activity operates in partial conformance with the Standards, as the internal audit activity has a quality assurance and improvement program in place to address deficiencies and has met the requirement for conducting an external assessment.
- D. Update and reissue previous audit reports, removing the assertion that the internal audit activity operates in conformance with the Standards, and distribute them to all parties who received the original reports.

Answer: B

NEW QUESTION 239

- (Topic 2)

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

NEW QUESTION 242

- (Topic 2)

An internal auditor is evaluating techniques management uses to mitigate risks within a particular product division. Which of the following is an example of risk reduction?

- A. Management sells the product division to a competitor.
- B. Management outsources the product division to a third party.
- C. Management allows the product division to remain unchanged.
- D. Management modifies the product division to minimize errors.

Answer: D

NEW QUESTION 243

- (Topic 2)

Which of the following is most likely to function as a directive control?

- A. Security dogs.
- B. Alert employees.
- C. Insurance claims.
- D. Cycle counts.

Answer: B

NEW QUESTION 246

- (Topic 2)

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. Postpone the audit until the CAE hires internal audit staff with the required knowledge.
- B. Ask the audit committee to decide the course of action.
- C. Select the most experienced auditors in the department to perform the engagement.
- D. Hire consultants who possess the required knowledge to perform the engagement.

Answer: D

NEW QUESTION 250

- (Topic 2)

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

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

Answer: A

NEW QUESTION 251

- (Topic 2)

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

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

Answer: C

NEW QUESTION 256

- (Topic 2)

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

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

Answer: C

NEW QUESTION 259

- (Topic 2)

Non-statistical sampling does not require which of the following?

- A. The sample to be representative of the population.
- B. The sample to be selected haphazardly.
- C. A smaller sample size than if selected using statistical sampling.
- D. Projecting the results to the population.

Answer: C

NEW QUESTION 263

- (Topic 2)

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

NEW QUESTION 265

- (Topic 2)

If appropriate safeguards exist, which of the following is considered a legitimate internal audit role within risk management at an organization?

- A. Imposing risk management processes.
- B. Providing consolidated reporting on risks.

- C. Taking accountability for risk management.
- D. Making decisions on risk responses.

Answer: B

NEW QUESTION 267

- (Topic 2)

A manufacturing line supervisor joins the internal audit activity for a two-year rotational job assignment and is assigned to an accounts receivable audit. With regard to this assignment, which of the following should be the primary concern of the audit manager?

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

Answer: A

NEW QUESTION 269

- (Topic 2)

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

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

Answer: C

NEW QUESTION 273

- (Topic 2)

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

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

Answer: B

NEW QUESTION 278

- (Topic 2)

According to IIA guidance, which of the following statements about working papers is false?

- A. They assist in the implementation of recommendations.
- B. They provide support for communication to third parties.
- C. They demonstrate compliance with auditing standards.
- D. They contribute to development of the internal audit staff.

Answer: A

NEW QUESTION 281

- (Topic 2)

When developing the organization's first risk universe, which of the following would the chief audit executive be least likely to consider?

- A. The amount of risk that an organization is willing to seek or accept.
- B. The extent and degree of interdependency for identified key risks.
- C. The boundaries established to manage the amount of risk taken.
- D. The exposure to risks following management's risk responses.

Answer: D

NEW QUESTION 285

- (Topic 2)

The manager for an organization's accounts payable department resigned her post in that capacity. Three months later, she was recruited to the internal audit activity and has been working with the audit team for the last eight months. Which of the following assignments would the newly hired internal auditor be able to execute without any impairments to independence or objectivity?

- A. An operations audit of the accounts payable department.
- B. A consulting engagement related to a new accounts payable optimization initiative.
- C. A review of the employees' sports club finances, which are overseen by the chief audit executive.
- D. An assurance review for a sales program on which she previously provided consultation.

Answer: C

NEW QUESTION 288

- (Topic 2)

Which of the following offers the best evidence that the internal audit activity has achieved organizational independence?

- A. An independent third party has assessed the organization's system of internal controls to be adequate and effective.
- B. The chief audit executive reports both functionally and administratively to the CEO.
- C. The internal audit charter is drafted properly and approved by the appropriate parties.
- D. The mission statement and strategy of the internal audit activity demonstrates alignment to organizational objectives.

Answer: B

NEW QUESTION 290

- (Topic 2)

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

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

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

Answer: B

NEW QUESTION 291

- (Topic 2)

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

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

Answer: B

NEW QUESTION 294

- (Topic 2)

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. Their understanding of auditing standards.
- B. Previous experience working with the internal audit activity.
- C. Their reporting line within the organization.
- D. The nature of their regular duties and responsibilities.

Answer: A

NEW QUESTION 296

- (Topic 2)

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

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

Answer: C

NEW QUESTION 300

- (Topic 2)

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

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

Answer: B

NEW QUESTION 302

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