

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

1. 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. Monitoring.

B. Control environment.

C. Information and communication.

D. Control activities.

Answer(s): B

2. Which of the following factors affects the control risk of a company?

A. Potential problems like technological obsolescence.

B. Unusual pressures on management.

C. Complex accounts that require expert valuations.

D. Segregation of duties.

Answer(s): D

3. Human resources and payroll are separate departments. Which of the following combinations would provide the best segregation of duties?

A. Human resources personnel add employees, payroll personnel process hours, and human resources personnel deliver paychecks to employees.

B. Human resources personnel add employees, review and submit payroll hours to the payroll department for processing, and deliver paychecks to employees.

C. 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.

D. Payroll personnel add employees and enter employee bank account numbers but process hours only as approved by the human resources department. Paychecks are automatically deposited in the employee's bank account.

Answer(s): C

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

A. Preparing written organizational policies that relate to compliance with laws, regulations, ethics, and conflicts of interest.

B. Ensuring that financial statements are understandable, transparent, and reliable.

C. Assisting the internal audit activity in performing annual reviews of governance.

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

Answer(s): B

5. 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?

A. 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

B. I

C. II.

D. III.

E. IV.

Answer(s): B

6. According to the Standards, the organizational status of the internal audit activity:

A. Must be sufficient to permit the accomplishment of its audit responsibilities.

B. Is best when the reporting relationship is direct to the board of directors.

C. Requires the board's annual approval of the audit schedules, plans, and budgets.

D. Is guaranteed when the charter specifically defines its independence.

Answer(s): A

7. A high-volume retailer of consumer goods has used point-of-sale data to record sales and update inventory records for several years. When price changes are scheduled, corporate headquarters downloads a price change file to a computer server system at each store. Each store's assistant manager is responsible for checking the server for downloads and running the program that updates the store's price file at the authorized price update time. In comparison with having headquarters initiate the price update centrally, this approach to price updating will most likely:

A. Decrease the risk that customers will be undercharged consistently for sales items.

B. Decrease the risk that item prices will sometimes be inaccurate.

C. Increase the risk that customers will be undercharged consistently for sales items.

D. Increase the risk that item prices will sometimes be inaccurate.

Answer(s): D

8. An internal auditor is reviewing a new automated human resources system. The system contains a table of pay rates which are matched to the employee job classifications. The best control to ensure that the table is updated correctly for only valid pay changes would be to:

A. Limit access to the data table to management and line supervisors who have the authority to determine pay rates.

B. Require a supervisor in the department, who does not have the ability to change the table, to compare the changes to a signed management authorization.

C. Ensure that adequate edit and reasonableness checks are built into the automated system.

D. Require that all pay changes be signed by the employee to verify that the change goes to a bona fide employee.

Answer(s): B

9. According to the International Professional Practices Framework, internal auditors should possess which of the following competencies?

A. 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.

B. I only

C. II only

D. I and III only

E. I, III, and IV only

Answer(s): D

10. Which of the following is not an appropriate role for internal auditors after a disaster occurs?

A. Monitor the effectiveness of the recovery and control of operations.

B. Correct deficiencies of the entity's business continuity plan.

C. Recommend future improvements to the entity's business continuity plan.

D. Assist in the identification of lessons learned from the disaster and the recovery operations.

Answer(s): B

11. Which of the following lists the audit activities in the order in which they would generally be completed during a preliminary survey?

A. Write detailed audit procedures.II. Identify client objectives, goals, and standards.III. Identify risks and controls intended to prevent associated losses.IV. Determine relevant engagement objectives.

B. II,I,IV,III.

C. II,III,IV,I.

D. III,IV,II,I.

E. II,IV,I,III.

Answer(s): B

12. 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. Interviewing the manager who requested the audit engagement.

C. Obtaining a copy of the contract between the two organizations.

D. Preparing an engagement program.

Answer(s): A

13. 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. A restrictive segregation-of-duties policy can help improve an organization's communication.

D. Policies on segregation of duties in information systems must recognize the difference between logical and physical access to assets.

Answer(s): D

14. An auditor plans to analyze customer satisfaction, including. (1) customer complaints recorded by the customer service department during the last three months; (2) merchandise returned in the last three months; and (3) responses to a survey of customers who made purchases in the last three months.

Which of the following statements regarding this audit approach is correct?

A. Although useful, such an analysis does not address any risk factors.

B. The survey would not consider customers who did not make purchases in the last three months.

C. Steps 1 and 2 of the analysis are not necessary or cost-effective if the customer survey is comprehensive.

D. Analysis of three months' activity would not evaluate customer satisfaction.

Answer(s): B

15. If an internal auditor discloses confidential information in response to a lawsuit, the internal auditor has violated.

A. The IIA Code of Ethics.

B. The Standards.

C. Both the IIA Code of Ethics and the Standards.

D. Neither the IIA Code of Ethics nor the Standards.

Answer(s): D

16. In developing an appropriate work program for an audit engagement, the most important factor for an audit supervisor to consider is the:

A. Availability of records and data.

B. Potential impact of risks.

C. Audit personnel's knowledge and experience.

D. Time required to complete the engagement.

Answer(s): B

17. An organization has a policy requiring two signatures on all checks written for amounts in excess of \$10, 000. When evaluating controls over disbursements, an auditor would conclude that a greater risk exists if.

A. The auditor located two checks for \$9,000 each that contained one authorized signature.

B. The \$10,000 was an immaterial amount to the organization and very few cash disbursements required an amount in excess of \$10,000.

C. The director of accounting was not one of the authorized signers.

D. There were several instances in which successively numbered checks for amounts between \$5,000 and \$10,000 were made payable to the same vendor.

Answer(s): D

18. Which of the following is not an appropriate type of coordination between the internal audit activity and regulatory auditors?

A. Regulatory auditors share their perspective on risk management, control, and governance with the internal auditors.

B. Internal auditors perform fieldwork at the direction of the regulatory auditors.

C. Internal auditors review copies of regulatory reports in planning related internal engagements.

D. Regulatory and internal auditors exchange information about planned activities.

Answer(s): B

19. Which of the following activities most significantly increases the risk that a bank will make poor-quality loans to its customers?

A. Borrowers may not sign all required mortgage loan documentation.

B. Fees paid by the borrower at the time of the loan may not be deposited in a timely manner.

C. The bank's loan documentation may not meet the government's disclosure requirements.

D. Loan officers may override the lending criteria established by senior management.

Answer(s): D

20. An organization that outsources much of its internal audit work to an external service provider is planning for an external quality assessment. Which of the following options would accomplish this task and be in conformance with the Standards?

A. External industry associate that performed a similar review for a supplier of the organization.

B. A team from an independent entity that previously employed the chief audit executive of the organization.

C. A team under the direction of the organization's chief audit executive with validation by a former manager of the internal audit activity.

D. The same external service provider because of its competency and experience with the organization.

Answer(s): A
