

Certified Internal Auditor - Part 2, Conducting the Internal Audit Engagement

1. Topic #: 1

Which of the following would be a red flag that indicates the possibility of inventory fraud?

- I. The controller has assumed responsibility for approving all payments to certain vendors.
- II. The controller has continuously delayed installation of a new accounts payable system, despite a corporate directive to implement it.
- III. Sales commissions are not consistent with the organization's increased levels of sales.
- IV. Payments to certain vendors are supported by copies of receiving memos, rather than originals.

A. A. I and II only

B. B. II and III only

C. C. I, II, and IV only

D. D. I, III, and IV only

Answer(s): A

2. Question #: 2

Topic #: 1

During an operational audit of a chain of pizza delivery stores, an auditor determined that cold pizzas were causing customer dissatisfaction. A review of oven calibration records for the last six months revealed that adjustments were made on over 40 percent of the ovens. Based on this, the auditor:

A. A. Has enough evidence to conclude that improperly functioning ovens are the cause.

B. B. Needs to conduct further inquiries and reviews to determine the impact of the oven variations on the pizza temperature.

C. C. Has enough evidence to recommend the replacement of some of the ovens.

D. D. Must search for another cause since approximately 60 percent of the ovens did not require adjustment.

Answer(s): B

3. Question #: 2

Topic #: 2

Checklists used to assess audit risk have been criticized for all of the following reasons except:

A. A. Providing a false sense of security that all relevant factors are addressed.

B. B. Inappropriately implying equal weight to each item on the checklist.

C. C. Decreasing the uniformity of data acquisition.

D. D. Being incapable of translating the experience or sound reasoning intended to be captured by each item on the checklist.

Answer(s): D

4. Question #: 2

Topic #: 5

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

A. A. Degree of effort and cost needed to correct the reported condition.

B. B. Complexity of the corrective action.

C. C. Impact that may result should the corrective action fail.

D. D. Amount of resources required to conduct the follow-up activities.

Answer(s): C

5. Question #: 2

Topic #: 4

Which of the following would most likely include recommendations for process improvements?

Due diligence engagement.

Forensic investigation.

Internal audit engagement.

Consulting engagement.

A. A, 1, 2, and 3 only

B. B, 1, 2, and 4 only

C. C, 1, 3, and 4 only

D. D, 2, 3, and 4 only

Answer(s): C

6. Question #: 3

Topic #: 5

Which of the following is an appropriate responsibility for the internal audit activity with regard to the organization's risk management program?

A. A. Identifying and managing risks in line with the entity's risk appetite.

B. B. Ensuring that a proper and effective risk management process exists.

C. C. Attaining an adequate understanding of the entity's key mitigation strategies.

D. D. Identifying and ensuring that appropriate controls exist to mitigate risks.

Answer(s): D

7. Question #: 3

Topic #: 1

When assessing the risk associated with an activity, an internal auditor should:

A. A. Determine how the risk should best be managed.

B. B. Provide assurance on the management of the risk.

C. C. Modify the risk management process based on risk exposures.

D. D. Design controls to mitigate the identified risks.

Answer(s): C

8. Question #: 3

Topic #: 4

According to the Standards, which of the following best describes the responsibility of the chief audit executive (CAE) for approving the final engagement report?

The CAE is responsible for obtaining management approval before issuing the final report.

The CAE has overall responsibility for the report but can delegate the review and approval of the report.

The CAE is responsible for obtaining senior management's approval before releasing the final report.

The CAE is responsible for approving to whom and how the final report will be disseminated.

A. A. 1 and 3 only

B. B. 1 and 4 only

C. C. 2 and 3 only

D. D. 2 and 4 only

Answer(s): D

9. Question #: 3

Topic #: 3

Which of the following is the correct ratio to use in calculating the dollar value of the population if the auditor is using ratio estimation?

A. Number of Items –

Answer(s): B

10. Question #: 4

Topic #: 4

A report prepared by the internal audit activity contains several observations that disclose proprietary information regarding the organization's manufacturing process. According to the International Professional Practices Framework, which of the following is the appropriate treatment for this report?

- A. A. Distribute the report only to the board to protect disclosure.
- B. B. Disclose and distribute this information in a separate report.
- C. C. Remove the observations and report verbally to senior management.
- D. D. Require a separate non-disclosure statement from each recipient.

Answer(s): D

11. Question #: 4

Topic #: 2

Which of the following would cause a company's accounts receivable turnover ratio to decrease steadily over a three-year period?

- A. A. An increase in the discount offered for early payment.
- B. B. A more liberal credit policy.
- C. C. Invoices provided on a weekly rather than a monthly basis.
- D. D. Increased cash sales.

Answer(s): C

12. Question #: 4

Topic #: 3

During an audit of a major contract, an 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. A. Defective pricing.

B. B. Cost mischarging.

C. C. Fictitious vendor.

D. D. Bid rotation.

Answer(s): A

13. Question #: 4

Topic #: 5

Which of the following is a detective control for managing the risk of fraud?

A. A. Awareness of prior incidents of fraud.

B. B. Contractor non-disclosure agreements.

C. C. Verification of currency exchange rates.

D. D. Receipts for employee expenses.

Answer(s): C

14. Question #: 4

Topic #: 1

Which of the following procedures would provide the best evidence of the effectiveness of a credit-granting function?

A. A. Observe the process.

B. B. Review the trend in receivables write-offs.

C. C. Ask the credit manager about the effectiveness of the function.

D. D. Check for evidence of credit approval on a sample of customer orders.

Answer(s): A

15. Question #: 5

Topic #: 2

Which of the following would be the best audit procedure to use to determine if a division's unusually high sales and gross margin for November and December were the result of fraudulently recorded sales?

A. A. Trace a sample of shipping documents to related sales invoices to verify proper billing.

B. B. Confirm accounts receivable balances with customers.

C. C. Compare sales and gross margin totals with those of the previous ten months and the first month of the following year.

D. D. Use regression analysis techniques to estimate the sales and cost of goods sold for November and December.

Answer(s): D

16. Question #: 5

Topic #: 3

A staff auditor, nearly finished with an audit engagement, discovers that the director of marketing has a gambling habit. The gambling issue is not directly related to the existing engagement and there is pressure to complete the current engagement. The auditor notes the problem and forwards the information to the chief audit executive but performs no further follow-up. The auditor's actions would:

I. Be in violation of the IIA Code of Ethics for withholding meaningful information.

II. Be in violation of the Standards because the auditor did not properly follow up on a red flag that might indicate the existence of fraud.

III. Not be in violation of either the IIA Code of Ethics or Standards.

A. A. I only

B. B. II only

C. C. III only

D. D. I and II only

Answer(s): A

17. Question #: 5

Topic #: 1

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

A. A. Determining if controls over record keeping and reporting are adequate and effective.

B. B. Reviewing data provided by information systems to test compliance with external requirements.

C. C. Determining if information systems provide management with timely information.

D. D. Determining if information systems provide complete information.

Answer(s): D

18. Question #: 6

Topic #: 2

Which of the following factors could interfere with effective problem solving by an internal auditor?

I. Reacting to previous experiences with clients.

II. Focusing only on the most likely cause.

III. Correcting the symptoms of problems.

A. A. I only

B. B. III only

C. C. I and II only

D. D. I, II, and III

Answer(s): D

19. Question #: 6

Topic #: 4

Which of the following conditions should a chief audit executive take into account when deciding if a follow-up audit engagement is necessary?

The reported observations were significant and high risk.
Internal audit resources and the time it will require for follow-up.
Management may not have the resources to take action.
Management has previously decided not to take any action.

A. A. 1, 2, and 3 only

B. B. 1, 2, and 4 only

C. C. 1, 3, and 4 only

D. D. 2, 3, and 4 only

Answer(s): C

20. Question #: 7

Topic #: 3

Which of the following is an advantage of an interim report?

- I. An interim report provides timely feedback to the audit engagement client.
- II. An interim report provides a mechanism for communicating information on red flags promptly while they are being investigated.
- III. An interim report provides an opportunity for auditor follow-up of findings before the engagement is completed.
- IV. An interim report increases the probability that corrective action will be initiated more quickly.

A. A. I and IV only

B. B. II and III only

C. C. I, III, and IV only

D. D. I, II, III, and IV.

Answer(s): D
