

# Certified Internal Auditor

1. Which of the following audit findings would have the least impact (either positive or negative) on a department's control environment?

A. The department makes long-term investment risk decisions to maximize return on investment.

B. The department manager sets and demonstrates a tone of honesty and integrity in all business dealings.

C. any department functions are duplicated or verified by other department employees.

D. Deficiencies were found in the appropriate authorization of transactions.

**Answer(s):** A

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2. According to the Standards, which of the following best describes the concept of due professional care?

A. Internal auditors must apply the diligence and skill expected of a reasonably prudent and competent internal auditor.

B. Internal auditors must possess the knowledge, skills, and other competencies needed to perform their audit responsibilities.

C. Internal auditors must have sufficient knowledge to identify fraud.

D. Internal auditors must refrain from participating in an engagement when they lack sufficient knowledge, skills, and competencies to assess the audit area fully.

**Answer(s):** A

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3. Which of the following is not true with regard to the internal audit charter?

A. It defines the authorities and responsibilities of the internal audit activity.

B. It specifies the minimum resources needed for the internal audit activity.

C. It provides a basis for evaluating the internal audit activity.

D. It should be approved by senior management and the board.

**Answer(s): B**

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4. 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. Access to and frequency of communications with the board of directors or its audit committee.

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. The scope and depth of engagement objectives for the audit engagements included in the review.

**Answer(s): B**

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5. To enhance the independence of both the internal and external audit functions, audit committees should be composed of

A. A rotating subcommittee of the board of directors or its equivalent.

B. A combination of external members of the board of directors and company officers.

C. Members from all important constituencies, specifically including representatives from banking, labor, regulatory agencies, shareholders, and officers.

D. Only external members of the board of directors or other similar oversight committees.

**Answer(s): D**

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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**

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7. An employee who recently transferred into the internal audit activity has been assigned to audit the accounts payable system. Which function, if previously performed by the auditor, would represent a conflict of interest?

A. Monitoring the allowance for doubtful accounts.

B. Writing procedures for the handling of duplicate payments.

C. Signing timekeeping cards for subordinates.

D. Reviewing shipping documents for accuracy.

**Answer(s): B**

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8. 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. II only.

C. Both I and II.

D. Neither I nor II.

**Answer(s): D**

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9. Management asked the internal audit activity to evaluate the appropriateness of self-insuring against casualty losses and health care for the organization's employees. Should the chief audit executive engage an actuarial consultant to assist in the audit engagement if these skills do not exist on staff?

A. No, because the internal audit activity is skilled in assessing controls and the insurance control concepts are not distinctly different from other control concepts.

B. No, because it is a normal audit function to assess risk; this audit engagement is therefore not unique.

C. Yes, because an actuarial consultant is essential to determine whether the health-care costs are reasonable.

D. Yes, because an actuarial consultant has skills, not usually found in the internal audit activity, to identify and quantify self-insurance risks.

**Answer(s): D**

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10. 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. Review of audit staff education and training records.

C. Review of audit staff size and composition of similar-sized companies in the same industry.

D. Interviews with existing audit staff.

**Answer(s): A**

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**11.** Which of the following steps would not be included in a program of selecting and developing human resources for an internal audit department?

A. Scheduling periodic meetings with individual auditors, during which the chief audit executive provides counsel regarding each auditor's performance and professional career development.

B. Establishing an internal review team to assess the auditors' and audit department's compliance with standards, level of audit effectiveness, and compliance with departmental policy.

C. Developing specific job descriptions for audit staff, audit managers, and other auditing positions.

D. Establishing in-house training programs and requiring continuing education for audit staff.

**Answer(s): B**

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**12.** To ensure that due professional care has been taken during an audit engagement, an internal auditor should always

A. Ensure that all financial information related to the engagement is included in the audit plan and examined for irregularities.

B. Document all audit tests completely.

C. Consider the possibility of noncompliance or irregularities at all times during an engagement.

D. Notify the audit committee of any noncompliance or irregularity discovered during an engagement.

**Answer(s): C**

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**13.** 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 II only

B. I and IV only

C. I, II, and III only

D. II, III, and IV only

**Answer(s): C**

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**14.** To promote a positive image within an organization, a chief audit executive (CAE) adjusted the audit plan to focus on assurance engagements that highlighted potential costs to be saved. Negative observations were to be omitted from engagement final communications. Which action taken by the CAE would be considered a violation of the Standards?

I). The focus of the audit function was changed without modifying the audit charter or notifying the audit committee.

II). Negative observations were omitted from the engagement final communications.

III). Cost savings and recommendations were highlighted in the engagement final communications.

A. II only

B. I and II only

C. I and III only

D. I, II, and III

**Answer(s): B**

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**15.** In selecting an instructional strategy for developing internal audit staff, a chief audit executive should first review the

A. Department's budget constraints

B. Internal auditors' personal development needs

C. Content of potential training courses

D. Organization's objectives.

**Answer(s): D**

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**16.** Continuing Professional Education (CPE) hours for Certified Internal Auditors may be achieved by

A. Attending audit staff meetings

B. Verifying that all completed audit tests are fully documented.

C. Publishing an article on the company's internal audit department.

D. Obtaining experience on the job.

**Answer(s): C**

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**17.** Which of the following activities is designed to provide feedback on the effectiveness of an internal audit function?

I). Proper supervision.

II). Proper training.

III). Internal assessments

IV). External assessments

A. I, II, and III only

B. I, II, and IV only

C. I, III, and IV only

D. II, III, and IV only

**Answer(s): C**

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**18.** 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(s): A**

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**19.** In publicly held companies, management often requires the internal audit activity's involvement with quarterly financial statements that are made public and used internally. Which of the following is generally not a reason for such involvement?

A. Management may be concerned about its reputation in the financial markets.

B. Management may be concerned about potential penalties that could occur if quarterly financial statements are misstated.

C. The Standards state that internal auditors should be involved with reviewing quarterly financial statements.

D. Management may perceive that having quarterly financial information examined by the internal auditors enhances its value for internal decision making.

**Answer(s): C**

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**20.** Risk assessments can vary in format, but generally include

I). A description of identified risks.

II). Tests of audit controls

III). A system of rating risks

IV). Sample size identification

A. I and II only



B. I and III only

C. I, III, and IV only

D. II, III, and IV only

**Answer(s): B**

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