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NEW QUESTION: 1

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Answer: B (LEAVE A REPLY)

Intervening during an audit involving ethical wrongdoing (Option 1) and negotiating a settlement of an employee claim for personal damages (Option 4) represent significant ethical risks if exhibited by an organization's board. These actions could indicate attempts to influence or undermine the audit process and the fair handling of ethical issues, leading to potential conflicts of interest and compromising the integrity of the organization's governance processes. Discussing periodic reports of ethical breaches (Option 2) and authorizing an investigation of an unsafe product (Option 3) are appropriate and responsible board actions that do not pose ethical risks.

IIA Standard 1110: Organizational Independence.

IIA Code of Ethics.

NEW QUESTION: 2

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Answer: B (LEAVE A REPLY)

Generalized audit software (GAS) is designed to assist auditors in performing data analysis and testing the logical controls embedded within information systems. This type of software can help an IT auditor review access controls by analyzing user permissions, access logs, and other relevant data to ensure that access is granted according to the principle of least privilege and organizational policies. GAS tools are versatile and can handle large volumes of data, making them suitable for testing logical controls in an accounting application.

The Institute of Internal Auditors (IIA) - Global Technology Audit Guide (GTAG) 1: Information Technology Controls

NEW QUESTION: 3

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Answer: (SHOW ANSWER)

When an internal auditor identifies a potential control deficiency based on a preliminary survey, such as the lack of established procedures for adding and approving new vendors, the next appropriate step is to gather more detailed information. Interviewing personnel involved in the accounts payable function allows the auditor to understand the context, confirm the accuracy of the questionnaire responses, and gain insights into the potential risks and impacts associated with the observed deficiency. This step is crucial before documenting the issue or planning further audit procedures to ensure the information is accurate and complete.

The IIA's International Standards for the Professional Practice of Internal Auditing, Standard 2201 - Planning Considerations.

NEW QUESTION: 4

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Answer: C (LEAVE A REPLY)

The current ratio is a financial metric that measures a company ' s ability to pay short-term obligations with its current assets. It is calculated by dividing current assets by current liabilities. This ratio provides insight into the liquidity and short-term debt-paying ability of a company, making it a key indicator for assessing financial health and stability in the short term.

The Institute of Internal Auditors (IIA), Financial Ratios and Analysis

" Financial Management: Theory & Practice " by Eugene F. Brigham and Michael C. Ehrhardt

NEW QUESTION: 5

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Answer: D (LEAVE A REPLY)

According to IIA guidance, the internal audit activity (IAA) can evaluate risk management processes without the need for safeguards. This activity aligns with the internal auditors' role in providing assurance on the effectiveness of the risk management process. Coaching management (Option A) and developing risk management strategies (Option B) involve direct participation in management functions, which could impair objectivity and require safeguards. Facilitating the identification and evaluation of risks (Option C) might also involve a degree of management participation that could compromise independence without proper safeguards. References: IIA Standard 2120 - Risk Management, IIA Practice Guide - Assessing the Adequacy of Risk Management Processes

NEW QUESTION: 6

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Answer: C (LEAVE A REPLY)

Contracts are typically drafted during the development phase of the contracting process. This phase follows the initiation and bidding phases and involves detailed negotiations and the preparation of formal agreements that outline the terms and conditions of the proposed business activity. This ensures that both parties have a clear understanding of their obligations and expectations before the contract is finalized and executed

NEW QUESTION: 7

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Answer: C (LEAVE A REPLY)

- * Consulting Engagements: Consulting engagements are advisory in nature and are intended to add value and improve an organization's governance, risk management, and control processes.
- * Role of Internal Auditor: In a consulting role, an internal auditor provides advice, facilitates risk management, and helps enhance the efficiency and effectiveness of operations.
- * Briefing Managers: By briefing department managers on how to implement risk management processes into their daily operations, the internal auditor is providing valuable advice that can help improve the organization's risk management framework.
- * IIA Standards: The IIA's standards emphasize that consulting activities should aim at improving governance, risk management, and control processes without taking on management responsibilities.

References:

IIA Standard 2010 - Planning .

NEW QUESTION: 8

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Answer: ([SHOW ANSWER](#))

To gather relevant feedback on the newly implemented software used by 3,000 employees in South America and Europe, distributing surveys to the software users in both regions is the best approach. Surveys can reach a large number of users quickly and can provide comprehensive feedback on various aspects of the software, including usability, functionality, and user satisfaction. This method allows for the collection of a wide range of opinions and experiences, which can be analyzed to identify common issues and areas for improvement.

The Institute of Internal Auditors (IIA) Practice Guide: Auditing IT Projects IIA Standard 2310 - Identifying Information

NEW QUESTION: 9

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Answer: ([SHOW ANSWER](#))

According to the IIA's Standards, specifically Standard 1210 - Proficiency, internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. If the internal audit activity lacks the necessary skill set to conduct a requested consulting engagement, the most appropriate action for the CAE is to decline the engagement request. This ensures that the internal audit activity does not compromise the quality and effectiveness of its services.

Reference: IIA Standard 1210 - Proficiency

NEW QUESTION: 10

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Answer: ([SHOW ANSWER](#))

Flowcharts are a valuable tool in internal auditing, particularly during the audit planning phase. They provide a visual representation of business processes, which helps internal auditors gain a comprehensive understanding of how these processes function.

* Understanding Business Processes:

* Flowcharts are used to depict the steps in a process, illustrating how inputs are transformed into outputs, the sequence of activities, and the points where decisions are made. This visual representation makes it easier for auditors to understand the flow of transactions, identify potential control points, and recognize areas where risks may arise.

* IIA Standard 2201 - Planning Considerations:

* According to this standard, internal auditors must consider the objectives, scope, and risks associated with the audit engagement during the planning phase. Understanding business processes is crucial for this, and flowcharts are an effective way to achieve this understanding.

* IIA Practice Advisory 2210.A1-1:

* This advisory suggests using various tools, including flowcharts, to enhance understanding of the area under review. Flowcharts help auditors see the process as a whole and identify where controls should be in place.

* Option A (Understanding management's risk tolerance): Flowcharts focus on processes, not on management's subjective risk tolerance.

* Option C (Determining the size of the audit team): While flowcharts provide process insights, they do not directly inform team size decisions.

* Option D (Understanding organizational objectives): Flowcharts focus on specific processes rather than high-level organizational objectives.

Detailed Explanation: Why Not Other Options? Conclusion: Option B is correct as it aligns with the purpose of flowcharts in audit planning, which is to understand business processes effectively.

NEW QUESTION: 11

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Answer: A (LEAVE A REPLY)

Audit observations are structured around the 4Cs: Condition, Criteria, Cause, and Consequence.

* Criteria = what "should be."

* Condition = what "is."

* Cause = why the deviation occurred.

* Consequence = effect or risk.

In this case, the correct criteria is that each invoice should be recorded only once in the accounting system (Option A). Options B and C describe condition and consequence, while Option D is irrelevant.

NEW QUESTION: 12

Which group or individual for the CAE to consult to determine the scope of the audit regarding compliance with new environmental regulations is the environmental, health, and safety manager. This individual or group has specialized knowledge about the organization's operations, regulatory requirements, and existing controls related to environmental compliance. Consulting with the environmental, health, and safety manager ensures that the audit scope is comprehensive and accurately addresses the pertinent risks and compliance requirements. References: IIA Standard 2201 - Planning Considerations, IIA Practice Advisory 2210.A1-1

- A. Environmental manager.
- B. Environmental, health, and safety manager.
- C. Environmental, health, and safety committee.
- D. Environmental, health, and safety department.

Answer: B (LEAVE A REPLY)

The most important group or individual for the CAE to consult to determine the scope of the audit regarding compliance with new environmental regulations is the environmental, health, and safety manager. This individual or group has specialized knowledge about the organization's operations, regulatory requirements, and existing controls related to environmental compliance. Consulting with the environmental, health, and safety manager ensures that the audit scope is comprehensive and accurately addresses the pertinent risks and compliance requirements. References: IIA Standard 2201 - Planning Considerations, IIA Practice Advisory 2210.A1-1

NEW QUESTION: 13

Which approach for the newly appointed CAE to obtain details of the internal audit activity's collective knowledge, skills, and competencies is to review or establish a documented skills assessment of the internal audit staff and gather information from post-audit surveys. This method provides a comprehensive view of the team's capabilities and identifies any skill gaps that need to be addressed, ensuring that the internal audit function can effectively fulfill its responsibilities. References: * The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 1210 - Proficiency. * The IIA's Practice Guide on Building a Competency Framework for Internal Auditing.

- A. Review or establish a documented skills assessment of the internal audit staff and gather information from post-audit surveys.
- B. Conduct a skills assessment of the internal audit staff.
- C. Conduct a skills assessment of the internal audit staff and gather information from post-audit surveys.
- D. Review or establish a documented skills assessment of the internal audit staff.

Answer: A (LEAVE A REPLY)

The most beneficial approach for the newly appointed CAE to obtain details of the internal audit activity's collective knowledge, skills, and competencies is to review or establish a documented skills assessment of the internal audit staff and gather information from post-audit surveys. This method provides a comprehensive view of the team's capabilities and identifies any skill gaps that need to be addressed, ensuring that the internal audit function can effectively fulfill its responsibilities. References: * The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 1210 - Proficiency. * The IIA's Practice Guide on Building a Competency Framework for Internal Auditing.

NEW QUESTION: 14

Which process is essential for identifying, analyzing, and managing risks that could prevent the achievement of objectives. It is a critical component in developing an effective system of internal controls.

- A. Risk Assessment Process.
- B. Risk Assessment.
- C. Risk Assessment Process.
- D. Risk Assessment Process.

Answer: (SHOW ANSWER)

* Risk Assessment Process: A risk assessment process is essential for identifying, analyzing, and managing risks that could prevent the achievement of objectives. It is a critical component in developing an effective system of internal controls.

- * Importance: Without a risk assessment, organizations cannot effectively design controls that address relevant risks.
- * COSO Framework: The Committee of Sponsoring Organizations (COSO) Internal Control Framework outlines risk assessment as a fundamental part of internal control systems.
- * Components: The framework includes risk assessment, control activities, information and communication, monitoring activities, and the control environment.
- * Other Preconditions:
- * Monitoring Process: Important for evaluating the effectiveness of internal controls but not the initial step.
- * Strategic Objective-Setting Process: Critical for overall organizational success but does not directly develop internal controls.
- * Information and Communication Process: Supports internal controls by ensuring relevant information is communicated but follows the identification of risks.

COSO Internal Control Framework.

NEW QUESTION: 15

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Answer: C (LEAVE A REPLY)

To improve collaboration with audit clients during an engagement, it is effective for internal auditors to discuss the engagement plan with the client so they understand the reasoning behind the approach (2), and to review test criteria and procedures where the client expresses concerns about the type of tests to be conducted (3). This approach fosters transparency, helps manage client expectations, and builds trust. Obtaining control concerns before the audit (1) is also useful but less directly related to collaboration during the engagement.

Providing all observations at the end of the audit (4) might not facilitate ongoing collaboration during the audit process.

References: IIA Standard 2200 - Engagement Planning, IIA Standard 2400 - Communicating Results

NEW QUESTION: 16

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Answer: C (LEAVE A REPLY)

Comprehensive and Detailed Explanation:

Per Standard 1210 - Proficiency, internal auditors must possess the necessary knowledge, skills, and competencies to perform engagements. If expertise is lacking internally, the CAE can obtain it through training, consulting, or external resources. In this case, the best solution is to engage another trained employee from within the organization (C) who has the required technical expertise in quality control equipment.

- * Canceling or postponing the audit (A) undermines risk-based planning.
 - * Removing testing (B) weakens assurance and fails to meet objectives.
 - * Outsourcing to external auditors (D) may be possible but is less efficient than leveraging internal expertise already available.
- Thus, Option C aligns best with IIA standards, ensuring proper expertise while maintaining the audit's integrity.

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NEW QUESTION: 17

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Answer: B (LEAVE A REPLY)

During planning, auditors gather information about processes and controls. While management (A) provides oversight and external auditors (C) focus on financial reporting controls, employees who perform the daily tasks (B) have the most accurate, detailed, and current knowledge of how processes and controls actually operate. The board (D) provides governance, not operational detail.

NEW QUESTION: 18

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Answer: C (LEAVE A REPLY)

The most critical factor in determining which engagements should be included in the annual internal audit plan is the organization's annual risk management strategy. This strategy identifies the key risks facing the organization and ensures that the internal audit plan aligns with the areas of highest risk. This prioritization helps ensure that internal audit resources are focused on areas that could have the most significant impact on the organization. References:

* "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)

* "Risk-Based Internal Auditing" (IIA Practice Guide)

NEW QUESTION: 19

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Answer: C (LEAVE A REPLY)

Understanding the Engagement Scope: The primary area of interest in an assurance engagement focused on the adequacy of organization-wide risk management practices is to ensure that risk management is effectively integrated into the organization's decision-making processes. This involves evaluating whether management decisions are aligned with the organization's risk appetite, which is the amount of risk the organization is willing to accept in pursuit of its objectives.

Key Considerations:

- * Effectiveness of Risk Management Framework: Ensuring that the risk management framework is robust and effectively implemented across the organization.
- * Risk Appetite Alignment: Assessing if the decisions made by management are within the boundaries set by the organization's risk appetite statement.
- * Strategic Objectives: Evaluating if the risk management practices support the achievement of the organization's strategic objectives.

IIA Standards: According to the IIA's International Standards for the Professional Practice of Internal Auditing, internal auditors must evaluate the effectiveness and contribute to the improvement of risk management processes (Standard 2120 - Risk Management).

References:

- * The alignment of management decisions with the level of risk the organization is willing to accept ensures that the organization does not take on more risk than it is prepared to handle, thereby protecting its assets and ensuring long-term sustainability.
- * Effective risk management practices help in identifying, assessing, and mitigating risks, which is crucial for the overall governance and operational effectiveness of the organization

NEW QUESTION: 20

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Answer: (SHOW ANSWER)

In the context of the fraud triangle, the condition where a vice president's unquestioned authority enabled the theft of funds is best described as "opportunity." Opportunity refers to the circumstances that allow fraud to occur, including the ability to override

Internal audit activities include evaluating the effectiveness and efficiency of internal controls, and part of this process involves analyzing and advising on the cost-benefit relationship of control activities.

This function helps ensure that the internal controls in place are not only effective in mitigating risks but are also economically justified

NEW QUESTION: 24

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Answer: ([SHOW ANSWER](#))

Meeting with the procurement card program administrator is a crucial step in identifying relevant risks and controls. This individual can provide detailed insights into how the procurement card program operates, potential risks, existing controls, and any issues or areas of concern. This information is vital for developing a comprehensive understanding of the program and for planning the audit engagement effectively. Actions like comparing card transaction types against policy guidelines, determining cardholder limit exceedances, and developing scope and objectives are important but are typically undertaken after initial risk and control identification.

The Institute of Internal Auditors (IIA) - Practice Guide: Engagement Planning

NEW QUESTION: 25

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Answer: ([SHOW ANSWER](#))

Nonstatistical sampling allows auditors to use their professional judgment to determine the sample size and select the items to be tested. Unlike statistical sampling, which relies on probabilistic methods to determine the sample size and selection, nonstatistical sampling is more flexible and can be tailored to the specific circumstances of the audit engagement.

IIA References:

* IIA Standard 2320: Analysis and Evaluation suggests that internal auditors should apply appropriate methods to analyze data and draw conclusions. Nonstatistical sampling allows for the application of professional judgment, which can be advantageous in certain audit situations where rigid statistical methods may not be practical or necessary.

* The Practice Guide on Sampling discusses the differences between statistical and nonstatistical sampling, highlighting that nonstatistical sampling relies more on the auditor's judgment, which can be beneficial in certain contexts.

Given this, the correct answer is C. Nonstatistical sampling provides for the use of subjective judgment in determining the sample size.

NEW QUESTION: 26

Which of the following is a characteristic of an internal audit manual?

- A. It is a collection of internal audit reports.
- B. It is a collection of internal audit procedures.
- C. It is a collection of internal audit findings.
- D. It is a collection of internal audit observations.

Answer: D (LEAVE A REPLY)

An internal audit procedures manual typically includes detailed information on the methodologies, tools, and techniques used during audits. It also outlines the protocols and guidelines for auditors to follow, including their authority and the scope of their work. Clearly defining the extent of the auditor's authority to collect data from management ensures that auditors understand their rights and limitations, which is essential for carrying out effective and efficient audits.

The Institute of Internal Auditors (IIA), Practice Guide on Developing the Internal Audit Manual

" Internal Auditing: Assurance and Advisory Services " by Urton L. Anderson, Michael J. Head, Sridhar Ramamoorti, Chris A. Bailey, and David A. Sarens

NEW QUESTION: 29

Which of the following is a characteristic of a survey with closed-ended questions?

- A. It allows respondents to provide open-ended responses.
- B. It allows respondents to provide multiple responses.
- C. It allows respondents to provide a range of responses.
- D. It allows respondents to provide a single response.

Answer: B (LEAVE A REPLY)

A survey with closed-ended questions can produce quantifiable evidence. Closed-ended questions limit responses to predefined options, making it easier to analyze and quantify the results. This type of survey is effective in gathering specific, comparable data from respondents.

IIA Practice Guide: Survey Methods in Internal Auditing

IIA Standards: 2310 - Identifying Information

NEW QUESTION: 30

When using benchmarking to test the employee turnover rate, the internal auditor should compare the organization's turnover rate to the published turnover rates of peer organizations. This method provides a relevant standard or point of reference to evaluate the organization's performance relative to similar entities.

- A. It provides a relevant standard or point of reference to evaluate the organization's performance relative to similar entities.
- B. It provides a relevant standard or point of reference to evaluate the organization's performance relative to similar entities.
- C. It provides a relevant standard or point of reference to evaluate the organization's performance relative to similar entities.
- D. It provides a relevant standard or point of reference to evaluate the organization's performance relative to similar entities.

Answer: (SHOW ANSWER)

When using benchmarking to test the employee turnover rate, the internal auditor should compare the organization's turnover rate to the published turnover rates of peer organizations. This method provides a relevant standard or point of reference to evaluate the organization's performance relative to similar entities.

By using external benchmarks, the auditor can identify whether the turnover rate is above or below industry norms, which helps in assessing the effectiveness of the organization's HR practices.

NEW QUESTION: 31

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Answer: (SHOW ANSWER)

For effective coordination of assurance coverage, the chief audit executive (CAE) should consider creating an assurance map. An assurance map provides a visual representation of the assurance activities across the organization, showing who is providing assurance, the areas covered, and the level of assurance provided.

This helps to identify gaps and overlaps in assurance coverage, enabling better coordination and optimization of resources. This approach is recommended by best practices in internal auditing as it aligns assurance activities with organizational risk and ensures comprehensive coverage.

The Institute of Internal Auditors (IIA) Practice Guide: Coordinating Risk Management and Assurance. IIA Standard 2050 - Coordination and Reliance

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NEW QUESTION: 32

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Answer: (SHOW ANSWER)

An engagement work program is of greatest value to audit management when it helps ensure the achievement of the engagement objectives. The work program outlines the audit procedures and tests that need to be performed to gather sufficient and appropriate evidence to support the audit findings and conclusions. By aligning the work program with the engagement objectives, auditors can focus their efforts on the most critical areas, ensure that all necessary steps are taken, and ultimately achieve the intended outcomes of the audit.

Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2240 - Engagement Work Program.

NEW QUESTION: 33

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Answer: (SHOW ANSWER)

According to the International Standards for the Professional Practice of Internal Auditing, the CAE must be kept informed of significant issues and deficiencies that are not addressed by management. Standard 2600 - Communicating the Acceptance of Risks requires the CAE to report any situation where management has accepted a level of risk that may be unacceptable to the organization. If the engagement supervisor learns that agreed-upon remedial actions have not been implemented, the CAE needs to be notified to determine further steps, ensuring that risks are managed appropriately and in alignment with the organization's risk tolerance.

This response aligns with the internal audit function's responsibility to follow up on management's corrective actions.

The IIA's International Standards for the Professional Practice of Internal Auditing, Standard 2600 - Communicating the Acceptance of Risks.

NEW QUESTION: 34

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Answer: A (LEAVE A REPLY)

* A. Review year-over-year trending of total dollars spent in each period: This is the correct approach because year-over-year analysis focuses on identifying anomalies or significant variances in expenses over time. Trends in data can help detect unexpected spikes, dips, or patterns that indicate irregularities or inefficiencies. This aligns with analytical procedures in expense analysis under the CIA Exam Syllabus Part 2, which emphasizes the use of comparative techniques to evaluate reasonableness.

* B. Review changes to the vendor master file for suspicious activity: While reviewing vendor master file changes is essential for fraud detection and control testing, it does not directly help in determining the reasonableness of monthly expenses.

* C. Review the percentage of on-time payments against prior periods: Examining payment timeliness relates to operational efficiency and cash flow management, not directly to evaluating whether monthly expenses are reasonable.

* D. Review total expenses for accounting against other department expenses in the organization:

Comparing accounting department expenses to those of other departments might indicate disparities but does not consider differences in department-specific activities and needs.

CIA Exam Syllabus Reference:

Domain V: Performing Internal Audit Services - Analytical Procedures and Testing Methods.

NEW QUESTION: 35

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Answer: B (LEAVE A REPLY)

According to IIA Standards, acceptable practices for testing conformance through a quality assurance review include conducting a self-assessment with independent validation (2) and arranging for reciprocal peer review with another CAE (4). These methods provide a cost-effective and practical approach to ensuring compliance with professional standards, especially for small internal audit activities. Using an external service provider (1) and arranging for a review by qualified employees outside of the IAA (3) are also valid, but self- assessment with independent validation and peer review are specifically highlighted for smaller IAAs.

References: IIA Standard 1312 - External Assessments, IIA Practice Guide - Quality Assurance and Improvement Program

NEW QUESTION: 36

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Answer: C (LEAVE A REPLY)

* Introduction:

* Due professional care requires auditors to plan, execute, and document their work meticulously, ensuring that their findings and conclusions are based on a thorough and objective assessment.

* Application of Due Professional Care:

* It involves following a structured approach to audit engagements to ensure that all necessary steps are taken to gather sufficient and appropriate evidence.

* Options Analysis:

* Option A: Detecting irregularities and noncompliance instances are outcomes of the engagement but do not inherently demonstrate due professional care.

* Option B: Lack of significant comments from the supervisor suggests quality but does not demonstrate the systematic approach needed for due professional care.

* Option C: Systematically planning, executing, and documenting audit procedures directly reflects the auditor's adherence to due professional care principles.

* Option D: While important, designing engagement objectives to assist the client does not cover the comprehensive nature of due professional care.

* Conclusion:

* The best demonstration of due professional care during an assurance engagement is the systematic planning, execution, and documentation of audit procedures.

Internal Audit Standards and Practice Guides

NEW QUESTION: 37

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Answer: C (LEAVE A REPLY)

Including the annual impact of the changed agreement on cash flows in the observation provides a clear quantification of the financial effect of the policy violation. This information is critical for understanding the significance of the issue and for decision-making regarding corrective actions. It shows the long-term implications of the unauthorized contract change, which is essential for management and the board to assess the severity of the non-compliance and its impact on the organization's financial health.

The Institute of Internal Auditors (IIA) - Practice Guide: Formulating and Expressing Internal Audit Opinions

NEW QUESTION: 38

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Answer: B (LEAVE A REPLY)

Authority Source: The internal audit charter is a formal document that defines the internal audit activity 's purpose, authority, and responsibility. It grants internal auditors the right to access all records, personnel, and physical properties relevant to the performance of engagements.

Facilities Maintenance Reports: When an engagement supervisor contacts a third-party contractor for maintenance reports, the authority is derived from the internal audit charter, which ensures auditors have the necessary access to perform their duties.

Importance of the Charter: This ensures the independence and objectivity of the internal audit activity, providing a clear mandate for auditors to obtain information from external parties as needed.

NEW QUESTION: 39

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Answer: C (LEAVE A REPLY)

When a key control is identified during fieldwork that was not recognized during the planning phase, it is critical to update the audit work program to include tests for this newly identified control. However, this adjustment should be made with the approval of the engagement supervisor. This ensures that the changes are properly documented and that the scope and objectives of the engagement remain aligned with the overall audit plan. Additionally, obtaining approval from the engagement supervisor maintains the integrity and oversight of the audit process.

The Institute of Internal Auditors (IIA) Standard 2240 - Engagement Work Program: " Internal auditors must develop and document work programs that achieve the engagement objectives. " IIA Practice Guide on " Engagement Planning "

NEW QUESTION: 40

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Answer: A (LEAVE A REPLY)

Workpapers from prior engagements provide context and background, especially regarding management's corrective actions and follow-up of past issues. They should inform planning, not dictate tests, scope, or risk assessment. Thus, the best benefit is understanding how prior issues were addressed, as stated in Option A.

NEW QUESTION: 41

Herzberg's Two-Factor Theory states that, in addition to hygiene factors, there are motivators that lead to job satisfaction. Which of the following is a motivator?

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- B. □□□ □□
- C. □□ □□ □ □□.
- D. □□ □□ □ □□ □□

Answer: B (LEAVE A REPLY)

Herzberg's Two-Factor Theory, also known as the Motivation-Hygiene Theory, distinguishes between motivators and hygiene factors. Motivators, which are related to job content, lead to higher job satisfaction and are intrinsic factors such as achievement, recognition, responsibility, and advancement. In contrast, hygiene factors, which are related to job context (e.g., salary, status, work conditions), do not lead to higher satisfaction but can cause dissatisfaction if missing.

Answer: (SHOW ANSWER)

According to the IIA guidance, sufficient information is defined as information that is factual, adequate, and convincing. This means that the information gathered during an audit must be based on verifiable facts, must be enough to form a reasonable conclusion, and must be persuasive enough to support the audit findings and recommendations. Ensuring information meets these criteria is essential for the credibility and reliability of the audit process.

IIA Standard 2310: "Identifying Information"

IIA Practice Advisory 2310-1: "Identifying Information"

NEW QUESTION: 45

Which of the following is the most effective measure for preventing unauthorized access to a system?

- A. Implementing a password policy that requires users to change their passwords every 120 days. IAA Standard 2110: Governance.
- B. Implementing a password policy that requires users to change their passwords every 20 days. IAA Standard 2110: Governance.
- C. Implementing a password policy that requires users to change their passwords every 90 days. IAA Standard 2110: Governance.
- D. Implementing a password policy that requires users to change their passwords every 30 days. IAA Standard 2110: Governance.

Answer: A (LEAVE A REPLY)

Strengthening password policies and ensuring unique passwords are used within a specified period are key measures in preventing unauthorized access and reducing the risk of fraud. Password management is a critical aspect of IT security and can significantly mitigate the risk of cyber fraud. The other recommendations (Options B, C, and D) address operational issues but do not directly impact fraud prevention as effectively as enhancing password security does.

IIA Standard 2110: Governance.

IIA Practice Guide on IT Controls and Cybersecurity.

NEW QUESTION: 46

Which of the following is the most important determinant of the objectives and scope of assurance engagements?

- A. The organization's risk appetite.
- B. The organization's business objectives.
- C. The organization's management requests.
- D. The internal auditors' preliminary risk assessment.

Answer: D (LEAVE A REPLY)

The most important determinant of the objectives and scope of assurance engagements is the preliminary risk assessment performed by internal auditors. This assessment identifies the key risks that the engagement should address and ensures that the audit is focused on areas of highest risk and significance to the organization. While organizational charts, business objectives, and management requests are important inputs, the internal auditors' preliminary risk assessment ensures that the audit addresses the most critical areas.

References:

* The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2210 - Engagement Objectives.

* The IIA's Practice Guide on Engagement Planning.

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NEW QUESTION: 47

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Answer: (SHOW ANSWER)

When preparing an internal control questionnaire for the procurement department, referencing relevant procurement laws or regulations ensures that the questions are aligned with the legal and regulatory requirements governing procurement activities. This approach helps to ensure that the questionnaire addresses all necessary compliance issues and identifies potential gaps in the organization ' s procurement processes that could lead to non-compliance.

The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing, Standard 2201 - Planning Considerations

NEW QUESTION: 48

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Answer: B (LEAVE A REPLY)

A limitation of a heat map is that it can be challenging to differentiate between impact and likelihood as to which is more important. Heat maps visually represent risks based on their impact and likelihood, but they do not inherently provide a mechanism to weigh these factors against each other, which can make prioritizing risks difficult in some cases.

IIA References:

* The IIA's Practice Guide on Risk Assessment discusses the use of heat maps in visualizing risks but also highlights their limitations, particularly in how impact and likelihood are presented. While heat maps are useful for a high-level overview, they may not provide the nuanced understanding needed for decision-making when both factors are critical.

NEW QUESTION: 49

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Answer: C (LEAVE A REPLY)

Discovery sampling is typically used when testing for fraud, especially when the expected deviation rate is very low. This method is designed to detect at least one occurrence of a specific characteristic (such as fraud) within a given sample size, making it effective for identifying rare but critical issues. It is particularly useful when the auditor suspects that fraud may exist but expects it to be infrequent.

Institute of Internal Auditors (IIA), Practice Guide - Auditing for Fraud.

NEW QUESTION: 50

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Answer: A (LEAVE A REPLY)

According to Standard 2340 - Engagement Supervision, engagement work must be properly supervised to ensure that objectives are achieved, quality is maintained, and staff are developed. Supervision is not limited to approving the engagement program at the beginning; it requires ongoing review of workpapers and fieldwork throughout the engagement. This includes providing timely feedback, asking clarifying questions, and ensuring consistency and sufficiency of evidence. In this case, the supervisor only reviewed the work program at approval and after completion, which is inadequate. The required improvement is regular, ongoing review of workpapers and guidance throughout the engagement. This directly aligns with Standard 2340's requirement for continuous supervision rather than only final review.

NEW QUESTION: 51

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Answer: (SHOW ANSWER)

An operational audit would be the most appropriate type of engagement to assess the root causes of the quality issues with components received from an overseas supplier. Operational audits focus on the efficiency and effectiveness of operations, and in this context, would involve examining the processes related to the procurement, inspection, and quality control of components to identify the underlying causes of the quality problems.

NEW QUESTION: 52

Which of the following is not a purpose of quality assessments?

- A. To evaluate the structure of the internal audit activity, relationships with stakeholders, compliance with the IIA Standards, and the proficiency of internal audit staff.
- B. To evaluate the performance of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.
- C. To evaluate the effectiveness of the internal audit activity's structure, the quality of relationships with stakeholders, and the proficiency and continuous professional development of internal audit staff.
- D. To evaluate the quality assurance and improvement program (QAIP) should be designed to enable the internal audit activity to add value and improve an organization's operations.

Answer: B (LEAVE A REPLY)

* Understanding Quality Assessments: Quality assessments in internal audit activities are designed to evaluate various aspects such as the structure of the internal audit activity, relationships with stakeholders, compliance with the IIA Standards, and the proficiency of internal audit staff.

* Internal Assessments: These include ongoing monitoring of the performance of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

* External Assessments: External assessments should be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization to ensure objectivity and comprehensiveness.

* Focus Areas: Quality assessments should focus on compliance with the IIA Standards, the effectiveness of the internal audit activity's structure, the quality of relationships with stakeholders, and the proficiency and continuous professional development of internal audit staff.

* Continuous Improvement: The quality assurance and improvement program (QAIP) should be designed to enable the internal audit activity to add value and improve an organization's operations. It helps ensure that the internal audit activity is in compliance with the IIA Standards and Code of Ethics and continuously improves.

References:

IIA Standard 1300 - Quality Assurance and Improvement Program .

NEW QUESTION: 53

Which of the following is the most appropriate solution for an organization that needs specialized knowledge in financial markets and has a time constraint?

- A. Hiring new staff with the required expertise.
- B. Inviting a guest auditor from one of the organization's affiliates who has the required expertise.
- C. Outsourcing the engagement to a third party.
- D. Hiring new staff with the required expertise and outsourcing the engagement to a third party.

Answer: C (LEAVE A REPLY)

Given the time constraint and the need for specialized knowledge in financial markets, inviting a guest auditor from one of the organization's affiliates who has the required expertise is the most appropriate solution. This approach leverages existing internal resources with the necessary skills, which can be more efficient and cost-effective than hiring new staff or outsourcing the engagement. Additionally, it facilitates knowledge sharing and can help build internal audit capacity for future engagements. The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing, Standard

NEW QUESTION: 54

Which of the following is not a component of the cost of plant assets?

- A. Purchase price of the asset
- B. Freight charges on the asset
- C. Sales tax on the asset
- D. Depreciation expense on the asset

Answer: (SHOW ANSWER)

Plant Assets Cost: For plant assets, which are tangible fixed assets such as buildings and machinery, the cost includes all expenditures necessary to acquire the asset and prepare it for its intended use. This includes the purchase price and additional costs such as design and construction.

This aligns with standard accounting practices where costs related to bringing an asset to its operational state are capitalized as part of the asset's cost.

Intangible Assets Cost: The cost of intangible assets, such as patents and trademarks, typically includes the purchase price and development costs. However, option B refers to this, but the correct focus for plant assets is emphasized in option A.

Amortization of Intangible Assets: Intangible assets with finite useful lives are subject to amortization, contradicting option C. Those with indefinite lives are not amortized but tested annually for impairment.

Expense of Developing Plant Assets: Development costs for plant assets are capitalized, not expensed immediately, making option D incorrect.

NEW QUESTION: 55

An auditor identifies a material error in the financial statements. The error is discovered before the engagement concludes. Which of the following is the most appropriate action for the auditor to take?

- A. Discuss the error with management and request a correction.
- B. Discuss the error with management and request a correction, but do not include the error in the final report.
- C. Discuss the error with management and request a correction, but do not include the error in the final report unless the error is not corrected.
- D. Discuss the error with management and request a correction, but do not include the error in the final report unless the error is not corrected and the error is material.

Answer: C (LEAVE A REPLY)

The correct approach aligns with the International Standards for the Professional Practice of Internal Auditing (Standards), particularly Standard 2400: Communicating Results. The auditor must promptly discuss material errors to prevent ongoing misstatements. Immediate correction ensures timely remediation and reduces the risk of material misstatement persisting in the financial records. Additionally, if the error is resolved before the engagement concludes, it may not necessitate inclusion in the final report, as per the guidance on handling material findings (Practice Advisory 2410-1). This approach also demonstrates collaboration and alignment with management, fostering trust.

NEW QUESTION: 56

Which of the following is the most appropriate role for the Chief Audit Executive (CAE) in an organization? The CAE reports to the CEO. The CAE reports to the board of directors. The CAE reports to the audit committee. The CAE reports to the regulator?

- A. The CAE reports to the Chief Health and Safety Officer (CHSO) and the CAE reports to the CEO.
- B. The CAE reports to the board of directors and the CAE reports to the audit committee.
- C. The CAE reports to the board of directors and the CAE reports to the regulator.
- D. The CAE reports to the board of directors and the CAE reports to an external specialist annually without internal coordination.

Answer: (SHOW ANSWER)

The role of the CAE includes ensuring that all significant risks, including those related to health and safety, are properly managed. Even though the chief health and safety officer reports directly to the CEO, the CAE should still coordinate with and review the work of this officer to understand and evaluate the management of health and safety risks. This helps ensure a comprehensive risk management approach within the organization and supports the overall assurance framework. It is not appropriate for the CAE to have no role (Option A), report directly to the regulator (Option C), or hire an external specialist annually without internal coordination (Option D).

IIA Standard 2010: Planning.

IIA Practice Guide on Coordinating Risk Management and Assurance.

NEW QUESTION: 57

Which of the following is the most appropriate element of a typical internal audit report?

- A. A brief synopsis of the process or area under review.
- B. A description of the scope and focus of the audit.
- C. A description of the subject matter of the audit and its significance within the organization.
- D. A description of the detailed findings and recommendations that follow in the report.

Answer: (SHOW ANSWER)

The recognition element of a typical internal audit report should describe a brief synopsis of the process or area under review. This section provides context and background information about the scope and focus of the audit, helping readers understand the subject matter of the audit and its significance within the organization. It sets the stage for the detailed findings and recommendations that follow in the report.

Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2410 - Criteria for Communicating.

NEW QUESTION: 58

Which of the following is the most appropriate element of a typical internal audit report?

- A. A brief synopsis of the process or area under review.
- B. A description of the scope and focus of the audit.
- C. A description of the subject matter of the audit and its significance within the organization.
- D. A description of the detailed findings and recommendations that follow in the report.

Answer: A (LEAVE A REPLY)

Coordinating audit plans with other internal and external assurance providers is critical to ensure coverage and avoid duplication of efforts. According to IIA Practice Advisory 2050-1, sharing high-level information such as objectives, scope, and timing supports effective coordination and minimizes the risk of conflicts of interest, while still maintaining confidentiality. Detailed sharing of risk assessments, planned tests, and past results might breach confidentiality and independence standards. The Institute of Internal Auditors (IIA) - Practice Advisory 2050-1: Coordination of Internal and External Audit Activities

NEW QUESTION: 59

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Answer: A (LEAVE A REPLY)

Nonsampling risk is the risk that the auditor may reach incorrect conclusions for reasons not related to the sampling process, such as failure to recognize exceptions or misinterpretation of audit results. In this case, the internal auditor did not notice that some purchase requisitions were approved by unauthorized persons, which is an oversight unrelated to the sample size or selection process. This is distinct from sampling risk, which is the risk that the sample selected does not represent the population. References:

- * The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2320 - Analysis and Evaluation.
- * The IIA's Practice Guide on Audit Sampling.

NEW QUESTION: 60

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Answer: B (LEAVE A REPLY)

- * Skill Gap Identification: Internal auditors lack the necessary expertise in chemical waste disposal.
- * Consulting Experts: Engaging an external nonaudit expert ensures that the internal audit team receives the necessary technical knowledge to conduct an effective review.
- * Team Assembly: By assembling a team of internal auditors and consulting an external expert, the organization leverages both internal audit capabilities and external technical expertise.

* Discovery sampling is used when the auditor is trying to identify at least one occurrence of a particular event, such as fraud. The sample is designed so that if a single error is found, it suggests that more may exist within the population, warranting further investigation.

* Application in Fraud Detection:

* Discovery sampling is effective in fraud detection because it focuses on identifying whether any instances of fraud exist within a population. This approach is well-suited for situations where even a small number of fraudulent transactions could have a significant impact.

* IIA Practice Guide on Statistical Sampling:

* The IIA suggests that discovery sampling is appropriate when the goal is to find the presence of an error or fraud, particularly in populations where such occurrences are expected to be infrequent.

* Option B (Stop-or-go sampling): This method is used to control the risk of over-auditing when errors are expected to be low, but it is not specifically designed for fraud detection.

* Option C (Haphazard sampling): This is a non-statistical sampling method and is not appropriate for systematic fraud detection.

* Option D (Stratified attribute sampling): This method divides the population into subgroups but is not specifically aimed at discovering fraud.

Detailed Explanation: Why Not Other Options? Conclusion: Option A is correct because discovery sampling is the most appropriate statistical method for testing a population for fraud, as it is designed to detect even a small number of significant deviations, consistent with IIA guidance.

NEW QUESTION: 63

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Answer: ([SHOW ANSWER](#))

When deciding whether to report a finding, the sufficiency of the information is critical. Sufficiency refers to the quantity of information obtained to support audit conclusions and recommendations. In this case, the internal auditors need to ensure that the sample size and the evidence collected are adequate to demonstrate that the issue of employees signing purchase orders in a designated acting capacity due to employee absence is significant enough to report. Ensuring sufficiency helps validate that the finding is well-supported and justifies its inclusion in the audit report.

The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing, Standard 2310 - Identifying Information

NEW QUESTION: 64

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Answer: D (LEAVE A REPLY)

The IIA Code of Ethics sets forth principles and expectations for ethical behavior in internal auditing, particularly regarding the communication of results.

* Integrity and Transparency: According to the IIA Code of Ethics, internal auditors are expected to exhibit integrity and transparency in their reporting, ensuring that material facts are disclosed accurately to avoid misrepresentation.

Reference: IIA Code of Ethics, Principle 4 - Integrity, which emphasizes the need for internal auditors to disclose all material facts known to them that, if not disclosed, could distort the reporting of activities under review.

Revealing Material Facts: The principle of integrity mandates that internal auditors must reveal material facts necessary to avoid any misrepresentation of the activities being reviewed. This ensures that stakeholders receive a truthful and complete picture of the audit findings.

Practical Example: If an auditor discovers significant control weaknesses that could impact financial reporting, these must be disclosed in the audit report to provide a true representation of the entity's control environment.

Confidentiality and Appropriateness: While confidentiality is important, it does not supersede the need to report material facts that are essential for accurate reporting. Confidential matters that are not material or do not distort the reporting can be withheld to protect sensitive information.

Clarification: Option A incorrectly suggests that all confidential matters can be withheld even if they are material and could distort reporting, which contradicts the principle of integrity.

Comprehensive Disclosure: The requirement to disclose all material information by the date of the final engagement communication (Option B) and obtaining all material information within established parameters (Option C) are important but secondary to the fundamental ethical obligation to ensure accurate and truthful reporting.

Clarification: These options focus on procedural aspects rather than the core ethical obligation of integrity and accurate reporting.

Conclusion: The correct answer is D, as it aligns with the IIA Code of Ethics requirement that internal auditors should reveal material facts that could potentially distort the reporting of activities under review, ensuring transparency and integrity in their communications.

NEW QUESTION: 65

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Answer: D (LEAVE A REPLY)

Root cause-based recommendations are most likely to propose long-term solutions. These recommendations address the underlying causes of issues rather than just the symptoms. By identifying and addressing the root causes, the solutions implemented are more likely to be effective in preventing the recurrence of the same or similar issues in the future.

* Root Cause Analysis: This involves a thorough investigation to identify the fundamental reasons for the occurrence of a problem. It goes beyond immediate symptoms to understand the deeper issues.

* Long-term Solutions: Recommendations based on root cause analysis focus on eliminating the underlying causes, leading to sustainable improvements and reducing the likelihood of repeat issues.

* Systemic Improvements: Addressing root causes often leads to changes in processes, controls, or organizational practices, resulting in broader and more lasting benefits.

By focusing on the root cause, the recommendations provide more robust and enduring solutions, contributing to the overall improvement and resilience of the organization.

The Institute of Internal Auditors (IIA) Standards

IIA Practice Guide: Root Cause Analysis in Internal Auditing

NEW QUESTION: 66

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Answer: A (LEAVE A REPLY)

by a grantee that received a charitable contribution, the most effective method is to visit the grantee and directly assess whether the project execution aligns with the scope defined in the grant. This method provides firsthand evidence of the grantee's activities and ensures that the charitable contributions are used as intended.

* IIA Standard 2310 - Identifying Information:

* This standard requires that internal auditors gather sufficient, reliable, relevant, and useful information to achieve the engagement objectives. Visiting the grantee allows auditors to observe and verify the actual execution of the project, which provides the most direct and reliable evidence.

* Field Visits:

* Conducting a site visit enables auditors to see the project in action, interview relevant personnel, and compare actual activities to what was promised in the grant proposal. This method helps ensure that the grantee is fulfilling its obligations and that the organization's charitable funds are being used effectively.

* Direct Evidence:

* Direct observation of the grantee's activities provides the highest level of assurance regarding the validity of the reported activities. This aligns with IIA's emphasis on obtaining the best available evidence to support audit findings.

* Option B (Verifying final report vs. initial budget): This only compares reports, which might not accurately reflect the actual activities conducted by the grantee.

* Option C (Reconciling general ledger accounts): This focuses on financial records, which may not provide sufficient detail about the actual activities conducted.

* Option D (Interviewing corporate affairs employees): While informative, this method only provides secondhand information and does not directly verify the grantee's activities.

Detailed Explanation: Why Not Other Options? Conclusion: Option A is correct because visiting the grantee provides the most reliable and direct evidence that the activities are in line with the grant's defined scope, ensuring the validity of the grantee's reported activities.

NEW QUESTION: 67

The chief audit executive (CAE) should prioritize risks to be used for the audit plan. Although the CAE is not accountable for managing risks, he is responsible for ensuring that the internal audit activity provides assurance on the effectiveness of the risk management processes. The CAE must understand the organization's risk landscape and determine which areas require audit attention based on their significance and potential impact. References: IIA Standard 2010 - Planning, IIA Practice Guide - Coordinating Risk Management and Assurance

- A. The CAE, the chief risk officer (CRO) and the chief financial officer (CFO) should discuss the organization's risk landscape.
- B. The CRO, the CAE and the CFO should discuss the organization's risk landscape.
- C. The CAE should discuss the organization's risk landscape with the CFO.
- D. The CEO, the CRO, the CAE and the CFO should discuss the organization's risk landscape.

Answer: (SHOW ANSWER)

The chief audit executive (CAE) should prioritize risks to be used for the audit plan. Although the CAE is not accountable for managing risks, he is responsible for ensuring that the internal audit activity provides assurance on the effectiveness of the risk management processes. The CAE must understand the organization's risk landscape and determine which areas require audit attention based on their significance and potential impact. References: IIA Standard 2010 - Planning, IIA Practice Guide - Coordinating Risk Management and Assurance

NEW QUESTION: 68

When an internal auditor identifies a primary control failure due to a design weakness, the next step is to assess the risk and determine if there are any compensating controls that mitigate this risk. Compensating controls can help to reduce the overall risk to an acceptable level. Engaging with management to discuss the issue and determine the necessary corrective actions ensures that the control environment is adequately addressed. This approach aligns with the internal auditor's role in providing assurance and consulting services designed to add value and improve an organization's operations. The IIA's International Standards for the Professional Practice of Internal Auditing, Standard 2120 - Risk Management.

- A. The internal auditor should discuss the issue with management to determine the necessary corrective actions.
- B. The internal auditor should discuss the issue with management to determine the necessary corrective actions and assess the risk.
- C. The internal auditor should discuss the issue with management to determine the necessary corrective actions and assess the risk.
- D. The internal auditor should discuss the issue with management to determine the necessary corrective actions and assess the risk.

Answer: A (LEAVE A REPLY)

When an internal auditor identifies a primary control failure due to a design weakness, the next step is to assess the risk and determine if there are any compensating controls that mitigate this risk. Compensating controls can help to reduce the overall risk to an acceptable level. Engaging with management to discuss the issue and determine the necessary corrective actions ensures that the control environment is adequately addressed. This approach aligns with the internal auditor's role in providing assurance and consulting services designed to add value and improve an organization's operations.

The IIA's International Standards for the Professional Practice of Internal Auditing, Standard 2120 - Risk Management.

NEW QUESTION: 69

The IIA's International Standards for the Professional Practice of Internal Auditing, Standard 2120 - Risk Management.

- A. The internal auditor should discuss the issue with management to determine the necessary corrective actions.
- B. The internal auditor should discuss the issue with management to determine the necessary corrective actions and assess the risk.
- C. The internal auditor should discuss the issue with management to determine the necessary corrective actions and assess the risk.
- D. The internal auditor should discuss the issue with management to determine the necessary corrective actions and assess the risk.

Answer: B (LEAVE A REPLY)

When an internal auditor identifies a major control weakness during a preliminary survey, the appropriate response is to bring it to the attention of the process owner for resolution. This approach aligns with the standards and guidelines provided by the Institute of Internal Auditors (IIA), particularly under the International Standards for the Professional Practice of Internal Auditing (Standards).

* IIA Standard 2120 - Risk Management:

* According to Standard 2120, the internal auditor must evaluate the effectiveness of the organization's risk management processes. Identifying and reporting control weaknesses is a key aspect of this evaluation. By bringing the issue to the attention of the process owner, the internal auditor ensures that those responsible for managing the process are aware of the risk and can take appropriate corrective actions.

* IIA Standard 2060 - Reporting to Senior Management and the Board:

* While it might seem logical to report directly to senior management (as option A suggests), the IIA recommends that the process owner be given the opportunity to address the issue first.

Standard 2060 emphasizes that significant risk exposures and control issues should be reported to senior management and the board, but only after they have been discussed with the appropriate process owners.

* IIA Standard 2440 - Disseminating Results:

* According to Standard 2440, the communication of audit results should be consistent with the objectives of the audit engagement. It is good practice to inform the process owner promptly so they can address the issue before the audit report is finalized. This approach helps in mitigating the risk at an early stage and ensures that the control weaknesses are appropriately managed.

* Ethical Considerations:

* The IIA's Code of Ethics requires internal auditors to act with integrity and to ensure that their communications are honest and constructive. Notifying the process owner immediately reflects a proactive and ethical approach to audit findings. It allows for timely corrective actions and demonstrates the auditor's commitment to improving the organization's control environment.

* Option A (Issue a final report to senior management): This step is premature at this stage of the audit.

Issuing a final report without allowing the process owner to address the issue could lead to unnecessary escalation and may undermine the collaborative nature of the audit process.

* Option C (Note the control weakness for discussion during the exit meeting): While discussing the issue during the exit meeting is part of the process, it is more effective to address the control weakness immediately rather than waiting until the exit meeting, where valuable time might be lost.

* Option D (Carry out an investigation for disciplinary action): This is beyond the internal auditor's scope unless the situation specifically warrants an investigation. The focus of the auditor should be on control improvements rather than disciplinary measures, which are typically managed by HR or legal departments.

Detailed Explanation: Why Not Other Options?

NEW QUESTION: 70

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Answer: D (LEAVE A REPLY)

* Testing Valuation: The valuation of trading securities requires comparing their carrying value with current market prices to ensure accuracy.

* Market Quotations: Current market quotations provide the most reliable and up-to-date information on the fair value of securities.

* Accounting Standards: This approach is consistent with accounting standards that require securities to be reported at fair value, reflecting any unrealized gains or losses.

* Verification Process: Comparing the carrying value with market quotations helps verify that the securities are appropriately valued on the financial statements.

References:

International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) regarding fair value measurement.

NEW QUESTION: 71

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Answer: (SHOW ANSWER)

Proficiency in internal auditing is not only about technical skills but also involves continuous education and staying updated with the latest practices and standards in the field.

Option D reflects the commitment to ongoing professional development, ensuring that internal auditors maintain and enhance their proficiency over time.

The Institute of Internal Auditors (IIA) emphasizes the importance of continuing professional development as a means to ensure auditors remain competent in their roles

NEW QUESTION: 72

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Answer: C (LEAVE A REPLY)

According to the IIA guidance, when reviewing an organizational process, the engagement work test typically focuses on process controls. This involves evaluating the design and effectiveness of controls in place to mitigate identified risks and ensure the achievement of process objectives. Assessing process controls helps auditors determine if the controls are operating as intended and are sufficient to manage the associated risks.

References:

* The Institute of Internal Auditors (IIA) Standards

* Internal Audit Engagement Planning and Execution

NEW QUESTION: 73

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Answer: C (LEAVE A REPLY)

Issuing an opinion on the overall effectiveness of internal control inherently carries the risk of increased audit risk and associated legal implications. This is because the opinion represents a high level of assurance, and any errors or omissions in the underlying audit work can lead to significant consequences, including potential legal liability. Therefore, auditors must be thorough and ensure that their conclusions are well-supported by the evidence obtained during the audit process.

The Institute of Internal Auditors (IIA) Practice Guide: Forming an Opinion on the Overall Adequacy and Effectiveness of Internal Controls IIA Standard 2400 - Communicating Results

NEW QUESTION: 74

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Answer: (SHOW ANSWER)

External benchmarking using trend analysis involves comparing a company's performance metrics with industry standards or averages over a certain period to identify trends and areas for improvement. Comparing common-size financial statements of the subsidiary with the averages of the industry for the last two periods allows for a normalized comparison by expressing financial statement items as a percentage of a common base figure (e.g., total assets or sales). This method highlights the subsidiary's financial structure and performance trends in relation to industry norms, facilitating a comprehensive analysis.

References:

- * "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)
- * "Benchmarking: An Essential Tool for Assessment, Improvement, and Market Leadership" (Michael J. Spendolini)

NEW QUESTION: 75

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Answer: (SHOW ANSWER)

According to IIA guidance, sufficient and reliable information is characterized by the ability to reach consistent audit conclusions regardless of who performs the audit. This means that the information collected during the audit is adequate, factual, and well-

documented so that different auditors would be able to draw the same conclusions based on the evidence. Consistency in audit conclusions enhances the reliability and credibility of the audit process.

The Institute of Internal Auditors (IIA) Practice Guide: Quality Assurance and Improvement Program IIA Standard 2310 - Identifying Information IIA Standard 2330 - Documenting Information

NEW QUESTION: 76

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Answer: B (LEAVE A REPLY)

According to the International Professional Practices Framework (IPPF), issuing an interim report is appropriate for keeping management informed of audit progress, especially when audit engagements extend over a long period of time, and for communicating any significant changes in the scope of the engagement.

Interim reports serve as a means of maintaining transparency with management and ensuring that any adjustments to the audit plan are communicated promptly.

IIA References:

* IIA Standard 2440: Disseminating Results allows for interim reporting when there is a need to communicate significant findings or changes in scope before the final report is issued. This ensures that management remains informed of critical issues that may impact the audit or the organization.

* The Practice Guide on Communicating Interim Results suggests that interim reports are useful for providing updates during long engagements or when there are significant changes in the engagement's scope that management needs to be aware of.

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Answer: A (LEAVE A REPLY)

According to the IIA's Implementation Guide for Standard 2340 - Engagement Supervision¹, one of the activities that the chief audit executive or the designated engagement supervisor should perform is to review and approve the engagement work program before the commencement of fieldwork. The engagement work program should be based on the engagement objectives, scope, and approach, and should reflect the risks and controls identified during the planning phase. The engagement work program should also be discussed with the engagement team to ensure that they understand the tasks and procedures to be performed, and to address any questions or concerns. The engagement supervisor should document the approval of the work program and any subsequent changes in the workpapers.

NEW QUESTION: 78

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Answer: (SHOW ANSWER)

An assurance map is a tool that provides a visual representation of the coverage of risks by various assurance providers. It supports the auditor's decision by showing which risks are being addressed by internal audit and other functions, and which risks are not being tested. This can help justify the auditor's decision not to test a particular risk, by demonstrating that it has already been covered or deemed low priority. References:

- * "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)
- * "Creating an Assurance Map" (IIA Practice Guide)

NEW QUESTION: 79

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Answer: B (LEAVE A REPLY)

Primary Responsibilities: For entry-level internal auditors, the primary responsibilities focus on learning and supporting tasks. Documentation is a key responsibility as it involves recording the findings and work performed during an audit engagement. This helps in building a foundation for understanding audit processes and methodologies. IIA's Global Internal Audit Competency Framework emphasizes documentation as a core skill for entry-level auditors.

Other Responsibilities:

Leadership: Typically a responsibility for more experienced auditors.

Analysis and Reporting: While entry-level auditors may assist with analysis and reporting, these tasks are generally more advanced and require a deeper understanding of audit processes.

NEW QUESTION: 80

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Answer: A (LEAVE A REPLY)

According to IIA Standard 2600: Communicating the Acceptance of Risks, the CAE must inform senior management and the board if management decides to accept a risk that may exceed the organization's risk appetite. The branch manager's unilateral decision without consulting senior management constitutes a governance issue. Escalating the matter ensures proper oversight and adherence to the organization's risk management framework. Options B, C, and D do not fulfill the CAE's responsibility to ensure appropriate communication and accountability at the senior management level.

NEW QUESTION: 81

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Answer: (SHOW ANSWER)

Retained earnings represent the cumulative profits reinvested in the organization rather than distributed as dividends. They reflect the organization's ability to generate resources internally, supporting working capital, expansion, and long-term sustainability.

- * Option A is incorrect: retained earnings are not the same as dividends.
- * Option B is incorrect: retained earnings are not equal to excess cash.
- * Option D is incorrect: rating agencies use broader financial measures, not retained earnings alone.

Thus, the best explanation is Option C: retained earnings show that the organization has been able to generate and reinvest resources from its own operations.

NEW QUESTION: 82

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Answer: B (LEAVE A REPLY)

The internal audit activity's role in regard to the organization's risk management program includes ensuring that a proper and effective risk management process is in place. This involves evaluating the risk management processes and providing assurance that risks are identified and managed effectively. The internal audit activity should not be responsible for managing risks (Option A), but should ensure there is a systematic process (Option B). Attaining an adequate understanding of key mitigation strategies (Option C) and identifying appropriate controls (Option D) are part of the audit process, but ensuring the existence of a proper process is the primary responsibility. References: IIA Standard 2120 - Risk Management

NEW QUESTION: 83

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Explanation:

To evaluate the project manager's effectiveness at controlling costs, the auditor should verify whether payments are properly authorized, valid, and consistent with agreements. The most direct test is to track a sample of project payments (B) from accounts payable back to contracts and authorizations. This demonstrates whether project expenditures were controlled and aligned with agreements. Bank reconciliations (A) are unrelated to project-level cost control. Validating feasibility model assumptions (C) relates to project planning, not ongoing cost control. Checking budget approval timing (D) relates to compliance but not cost management effectiveness. Therefore, Option B best aligns with the engagement objective.

NEW QUESTION: 84

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Answer: B (LEAVE A REPLY)

- * Matrix Organization Structure: In matrix organizations, employees report to both functional and product managers. This dual reporting structure allows the organization to efficiently use its personnel across different projects and functions.
- * Advantages of Matrix Structure:
 - * Resource Utilization: Personnel from various functions can be utilized effectively across multiple projects, improving resource allocation and flexibility.
 - * Coordination and Communication: This structure enhances coordination and communication across different functional areas and projects.
 - * Unity-of-Command: Option A is incorrect because the unity-of-command principle is compromised in a matrix organization due to dual reporting lines.
 - * Authority and Accountability: Option C is correct to some extent but does not capture the primary benefit of resource utilization.

By using an external expert, the CAE ensures the training is conducted by someone with the requisite expertise and without any conflict of interest.

The Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 1130: Impairment to Independence or Objectivity.

IIA Practice Guide, "Independence and Objectivity."

NEW QUESTION: 87

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Answer: D (LEAVE A REPLY)

- * Introduction:
- * Understanding cost behavior is crucial in managing production and financial performance in manufacturing.
- * Cost Characteristics:
- * Fixed costs remain constant in total but vary per unit with changes in production volume.
- * Variable costs vary directly with production volume but remain constant per unit.
- * Options Analysis:
- * Option A: Variable costs per unit remain constant regardless of production volume.
- * Option B: Fixed costs per unit decrease as production volume increases, not directly.
- * Option C: Total variable costs vary directly with production volume, not inversely.
- * Option D: Fixed costs per unit will decline as the number of units produced increases due to the spreading of fixed costs over a larger number of units.
- * Conclusion:
- * When production increases by 30%, the fixed cost per unit will decline as the same total fixed cost is allocated over a greater number of units.

Cost Accounting Standards and Practices .

NEW QUESTION: 88

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Answer: B (LEAVE A REPLY)

Stratified sampling is a technique that involves dividing a population into subgroups (strata) that share similar characteristics and then taking a sample from each subgroup. In the context of testing purchase transactions by different procurement officers, the transactions can be stratified based on the officers, ensuring that the audit team selects a sample that represents each officer's

transactions. This method helps in achieving a more accurate and reliable assessment of the procurement process across all officers.

The Institute of Internal Auditors (IIA), Practice Guide on Sampling

"Auditing and Assurance Services: An Integrated Approach" by Alvin A. Arens, Randal J. Elder, Mark S.

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NEW QUESTION: 89

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Answer: D (LEAVE A REPLY)

When addressing excessive overtime being paid to employees in an organization's customer service call center, the most relevant techniques for the internal auditor to use would be trend analysis, external benchmarking, and internal benchmarking. Trend analysis helps in identifying patterns over time, which can highlight the causes of excessive overtime. External benchmarking compares the organization's overtime data with industry standards to identify discrepancies. Internal benchmarking compares overtime across different departments or similar call centers within the organization to identify best practices and areas needing improvement. Confirmation is not as relevant in this context as it is primarily used to verify the accuracy of information through direct verification. References:

- * The IIA's Practice Guide on Data Analytics.
- * The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2320 - Analysis and Evaluation.

NEW QUESTION: 90

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Answer: (SHOW ANSWER)

Trend analysis is the analytics procedure that an internal auditor would use to compare performance information from one quarter to another. This technique involves analyzing data over a specific period to identify patterns, trends, and changes in performance metrics. Trend analysis helps auditors understand the direction of key performance indicators and assess whether performance is improving, declining, or remaining stable.

References:

- * The Institute of Internal Auditors (IIA) Standards
- * Data Analytics Techniques in Internal Auditing

NEW QUESTION: 91

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Answer: (SHOW ANSWER)

The planning memorandum serves as a comprehensive blueprint for an audit engagement, outlining the specific steps, procedures, and strategies that will be employed to carry out the audit. According to IIA guidance, the purpose of this document is to ensure that the audit team is well-prepared and that the audit process is systematic and thorough.

* Documentation of Audit Steps and Procedures: The primary purpose of a planning memorandum is to detail the steps and procedures that the audit team will follow. This ensures consistency and clarity throughout the audit process and provides a clear framework for team members to follow.

Reference: IIA ' s International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2201 - Planning Considerations, which states that the internal auditor must develop and document a plan for each engagement, including the engagement ' s objectives, scope, timing, and resource allocations.

Preparation and Coordination: It serves as a preparatory document that helps in coordinating the activities of the audit team, ensuring that everyone is aware of their roles and responsibilities.

Practical Example: If an audit is being conducted on the financial reporting processes, the planning memorandum would include specific procedures for testing internal controls over financial reporting, timelines for each phase of the audit, and responsibilities assigned to each team member.

Risk Management: While it includes information on preliminary risks, its main focus is on documenting the audit steps rather than managing risks or existing measures, which would be covered in other documents or sections of the audit plan.

Clarification: Options B, C, and D may include elements found within broader audit planning, but the planning memorandum specifically focuses on the procedural roadmap.

Conclusion: The correct answer is A, as the planning memorandum ' s primary function is to document the audit steps and procedures to be performed, ensuring a structured and organized approach to the audit engagement.

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NEW QUESTION: 92

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Answer: D (LEAVE A REPLY)

The primary purpose of implementing a program whereby employees are rotated from other parts of the organization into the internal audit activity is to provide an opportunity for the recruitment of employees as permanent internal auditors. This rotation program helps in identifying talented individuals who might have the aptitude and interest in internal auditing. It serves as a recruitment strategy by exposing employees from other departments to the internal audit function, potentially increasing the pool of candidates for permanent internal auditor positions. This approach also benefits the internal audit activity by bringing in fresh perspectives and diverse experiences from different areas of the organization.

IIA's Practice Guide on Human Resources Management, specifically regarding staffing and career development within internal audit functions.

NEW QUESTION: 96

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Answer: D (LEAVE A REPLY)

Comprehensive and Detailed Explanation:

When auditors use judgmental (non-statistical) sampling, the results apply only to the items tested and cannot be extrapolated statistically to the entire population. In this case, auditors tested 60 timesheets and found 3 exceptions. The appropriate conclusion is simply that 5% of the selected sample was not properly approved (D). Statements about effectiveness percentages (A, B) would require statistical sampling. Option C is inappropriate because exceptions do not prove flawed design - they may reflect control execution lapses. Per IIA standards, conclusions must reflect evidence without overgeneralization. Thus, Option D is the most appropriate conclusion.

NEW QUESTION: 97

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Answer: C (LEAVE A REPLY)

The rotational model of internal audit staffing involves bringing in staff from other parts of the organization for a temporary period before they return to their original roles. While this model has several advantages, such as bringing diverse perspectives and business knowledge, it also has the disadvantage that auditors are often new to the internal audit function and are continuously in training.

* Rotational Model:

* In this model, employees from various departments are rotated into the internal audit activity for a specific period. They gain audit experience before rotating back to their original or other roles within the organization.

* Disadvantages:

* Since these individuals are not career auditors, they may lack the deep audit expertise of career auditors, and a significant amount of time is often spent on training. This constant influx of new, inexperienced staff can lead to a scenario where the team is always in training mode, potentially impacting audit efficiency and effectiveness.

* IIA Practice Advisory 1210-1:

* The advisory notes that while the rotational model can enhance business understanding within the audit team, it requires careful management to ensure that audit quality is not compromised due to the continuous learning curve of rotating staff.

* Option A (Career model): This involves auditors who remain in the internal audit function throughout their careers, leading to a highly skilled and experienced team.

* Option B (Center of competence model): This model focuses on a centralized group of audit experts, ensuring specialized skills and consistency.

* Option D (Hybrid model): This combines elements of the rotational and career models, aiming to balance expertise with fresh perspectives.

Detailed Explanation: Why Not Other Options?

NEW QUESTION: 98

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

A key planning step for internal auditors to establish appropriate engagement objectives is to evaluate management's risk assessment and the internal audit activity's risk assessment. This step ensures that the audit focuses on areas of highest risk and aligns with the organization's risk management framework. By understanding and incorporating the organization's risk priorities, the internal auditors can design their engagements to provide maximum value and assurance regarding the control environment and risk management processes.

The Institute of Internal Auditors (IIA) Standard 2010: Planning

IIA Practice Advisory 2010-2: Using the Risk Management Process in Internal Audit Planning

NEW QUESTION: 99

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Answer: B (LEAVE A REPLY)

According to the Institute of Internal Auditors (IIA) guidance, internal audit activities can encompass several aspects of evaluating corporate social responsibility (CSR) programs.

- * Consulting on Design and Implementation: Internal auditors can provide valuable insights into the design and implementation of CSR programs to ensure they are well-structured and aligned with organizational objectives.
- * Advising on Governance and Risk Management: Serving as advisors, internal auditors can help in establishing effective governance structures and identifying and managing risks associated with CSR initiatives.
- * Mitigating Risks: By identifying and mitigating risks, internal auditors support the achievement of CSR program objectives, ensuring these initiatives are both effective and sustainable.
- * Reviewing Third Parties: While internal auditors may review third parties for contractual compliance with CSR terms, this activity is more often part of broader compliance audits rather than a specific focus area for CSR evaluations.

References:

"IIA Practice Guide: Auditing Corporate Social Responsibility," which outlines the role of internal auditors in CSR-related activities.

NEW QUESTION: 100

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Answer: A (LEAVE A REPLY)

The form and content of monitoring policies can indeed vary depending on the industry and the specific requirements of the organization. While all internal audit activities require some level of monitoring to ensure effectiveness and compliance with standards, the specific approach and documentation may differ based on industry norms, regulatory requirements, and organizational size and complexity.

The Institute of Internal Auditors (IIA) Practice Guide: Quality Assurance and Improvement Program IIA Standard 1300 - Quality Assurance and Improvement Program

NEW QUESTION: 101

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Answer: A (LEAVE A REPLY)

The focus of the effect section of the preliminary observations document should be on residual risk. Residual risk is the remaining risk after management has taken action to mitigate the inherent risk with controls and other risk responses. Documenting the effect in terms of residual risk helps in understanding the potential impact of the observed issues on the organization if not addressed.

IIA Standards: 2310 - Identifying Information

IIA Practice Guide: Communicating the Results of an Audit

NEW QUESTION: 102

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Answer: B (LEAVE A REPLY)

Outsourcing the whistleblowing process is acceptable if proper controls are established to maintain confidentiality and effectiveness. IIA Standard 2600 requires auditors to monitor the implementation of recommendations and assess changes. Reviewing the third-party agreement ensures compliance with the original recommendation's intent. Insisting on an internal process (Option A) or escalating the issue (Option C) may not be necessary if outsourcing meets objectives. Taking no action (Option D) overlooks the auditor's responsibility for follow-up.

NEW QUESTION: 103

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Answer: (SHOW ANSWER)

Evaluating management's risk assessment and the internal audit activity's risk assessment ensures that audit objectives align with organizational risks and priorities. This step is crucial for identifying high-risk areas and designing a focused audit approach.

- * Reviewing organizational structure, roles, and procedures (A) is important but does not directly establish engagement objectives.
- * Assessing process flow and control documents (C) is useful for control evaluation but not the primary planning step.
- * Reviewing meeting notes (D) may provide background information but is not the key step in establishing engagement objectives.

Reference: IIA's Standard 2200 - Engagement Planning and Practice Guide: Engagement Planning: Establishing Objectives and Scope.

NEW QUESTION: 104

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Answer: (SHOW ANSWER)

Management's action to recoup the duplicate payments made to a vendor is an effect-based action plan because it directly addresses the outcome (the duplicate payment) rather than the underlying cause that allowed the error to occur. An effect-based action plan focuses on correcting the issue's immediate consequences but does not necessarily address the root cause that led to the issue in the first place.

IIA References:

* IIA Standard 2500: Monitoring Progress emphasizes that internal auditors should monitor the disposition of audit recommendations. Addressing only the effects of an issue, like in this case, might provide a temporary fix but does not prevent future occurrences if the underlying causes are not identified and corrected.

NEW QUESTION: 105

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Answer: B (LEAVE A REPLY)

IIA Standards on Fraud:

* Standard 2120 - Risk Management: Internal auditors must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

* Immediate Response: When evidence of fraud is discovered, the internal auditor must ensure that appropriate actions are taken promptly.

Next Steps for Internal Auditor:

* Consult with Supervisor: The internal auditor should discuss the findings with the engagement supervisor. This ensures that the situation is assessed by a more experienced individual who can determine the next steps, including the need for specialized fraud investigation resources.

* Specialized Expertise: Determining whether fraud investigation experts are needed is crucial for handling the matter appropriately, as they possess the necessary skills to investigate complex fraud cases.

Documenting Evidence:

* While documenting the evidence and recommending controls is important (Option C), the immediate step should involve consultation with the supervisor to decide on the investigation approach.

* Notifying management directly (Option A) or law enforcement (Option D) should follow internal protocols and often occur after consultation with the supervisor and possibly higher-level approvals.

References:

* Engaging the engagement supervisor ensures that the appropriate steps are taken to investigate the fraud properly, aligning with professional standards and ensuring a thorough investigation.

NEW QUESTION: 106

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Answer: A (LEAVE A REPLY)

A significant governance issue that must be reported to the board is the absence of a formal risk management and control process, with risk management being solely the responsibility of operational managers. Effective governance requires a structured risk management framework overseen at the highest levels of the organization. The lack of such a process indicates a critical deficiency that can have severe implications for the organization's ability to manage and mitigate risks.

The Institute of Internal Auditors (IIA) Standard 2110 - Governance: "The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes."

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Answer: D (LEAVE A REPLY)

The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) provide guidance on the reporting requirements of the quality assurance and improvement program. According to Standard 1320, "The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board." This communication must include the results of both internal and external assessments and ongoing monitoring. Specifically, the results of ongoing monitoring of the internal audit activity's performance should be reported to senior management and the board at least annually. This ensures that the internal audit activity maintains its proficiency, enhances its effectiveness, and complies with the Standards.

Reference: IIA Standard 1320

NEW QUESTION: 108

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Answer: C (LEAVE A REPLY)

The frequency and approach to assessing residual risk are primarily influenced by the expectations set by the board and senior management. These expectations shape the internal audit function 's priorities, including how often residual risk should be assessed and the methods used to evaluate it. This ensures that the internal audit activities are aligned with the strategic objectives and risk appetite of the organization, as defined by its senior leadership.

The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing, Standard 2120 - Risk Management

NEW QUESTION: 109

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Answer: D (LEAVE A REPLY)

The internal audit charter outlines the internal audit activity's purpose, authority, and responsibility within the organization. It defines the internal audit activity's position within the organization, including reporting lines, independence, and access to records, personnel, and physical properties relevant to the performance of engagements. This clarity helps ensure that the internal audit activity can operate independently and effectively

NEW QUESTION: 110

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Answer: (SHOW ANSWER)

* Conflict of Interest: For both assurance and consulting engagements, it is crucial to avoid conflicts of interest. An auditor assessing processes they were previously responsible for can compromise objectivity and independence.
* IIA Standards: The IIA's Code of Ethics and standards emphasize maintaining objectivity and avoiding conflicts of interest. This is particularly important in consulting engagements where the auditor's recommendations could be influenced by prior roles.
* Appropriate Action:

* Assurance Engagements: For assurance engagements, prior knowledge might be beneficial but still raises concerns about independence. Declining the consulting engagement due to previous responsibilities ensures objectivity.

IIA Standard 1130 - Impairment to Independence or Objectivity.

NEW QUESTION: 111

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Answer: B (LEAVE A REPLY)

The primary objective of an engagement supervisor's review of key activities during the engagement is to ensure that all work performed meets acceptable quality standards. This includes verifying that audit procedures were appropriately executed, audit evidence is properly documented, and audit conclusions are supported. The supervisor's review is crucial for maintaining the integrity and reliability of the audit process, ensuring compliance with internal audit standards and protocols.

IIA Standard 2340: Engagement Supervision

IIA Practice Guide: Quality Assurance and Improvement Program

NEW QUESTION: 112

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Answer: (SHOW ANSWER)

Partnership liquidation refers to the process of dissolving a partnership, where all assets are sold, liabilities are paid off, and any remaining assets are distributed among the partners. This process marks the end of the partnership's legal existence and its economic activities.

* Legal and Economic Termination: Upon liquidation, the partnership ceases to exist legally and economically. This means that it can no longer operate or enter into new business transactions.

* Asset Distribution: The liquidation process ensures that all assets are sold, and the proceeds are used to pay off any outstanding debts. Any remaining funds are distributed to the partners according to the partnership agreement.

* Capital Deficiency: While capital deficiency might prompt liquidation, it is not a defining characteristic of the process.

* Creditors Payment: Creditors are paid from the partnership's assets, not directly by the partners unless agreed otherwise or if the assets are insufficient to cover the liabilities.

References:

"Fundamentals of Partnership Accounting," which details the steps and consequences of partnership liquidation.

NEW QUESTION: 113

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* By convening a meeting with senior management, the CAE can discuss the risks of non-compliance, including potential regulatory sanctions and reputational damage. This discussion provides an opportunity for senior management to reassess the decision in light of these risks.

* IIA Practice Advisory 2600-1:

* The advisory suggests that when significant risks are not being addressed by management, the CAE should communicate these concerns to higher levels of the organization. This ensures that the risks are not ignored and that appropriate action can be taken.

* Option A (Do nothing): This is not appropriate, as the CAE has a responsibility to escalate significant risks.

* Option B (Contact regulatory agency): This is an extreme step and should not be the first course of action. The issue should be discussed internally before involving external regulators.

* Option D (Highlight to external auditors): While external auditors might need to be informed, the issue should first be addressed within the organization.

Detailed Explanation: Why Not Other Options?

NEW QUESTION: 116

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Answer: ([SHOW ANSWER](#))

According to IIA guidance, the chief audit executive (CAE) is directly responsible for establishing the objectives, scope, and plan for each engagement. This responsibility ensures that each audit is properly focused and aligned with the overall goals and risk areas of the organization. While maintaining a quality assurance program and providing professional development opportunities are important, they are not solely the CAE's responsibility without management support. Periodic review and approval of the internal audit charter is typically a joint responsibility with senior management and the board. References:

* The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2010 - Planning.

* The IIA's Practice Guide on Developing the Internal Audit Plan.

NEW QUESTION: 117

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Answer: ([SHOW ANSWER](#))

The primary purpose of financial statement audit engagements is to review financial reports and ensure they comply with generally accepted accounting principles (GAAP). This involves verifying the accuracy and fairness of the financial statements, ensuring they provide a true and fair view of the organization's financial position and performance. References: = IIA Practice Guide: "Auditing Financial Statements" and IIA Standard 2110.A1.

NEW QUESTION: 118

Which of the following is the most appropriate method for documenting a simple process? A. Detailed risk assessment B. Identifying individuals who perform key roles C. Narrative memoranda D. Documenting outputs that support other activities

- A. Detailed risk assessment.
- B. Identifying individuals who perform key roles.
- C. Narrative memoranda.
- D. Documenting outputs that support other activities.

Answer: C (LEAVE A REPLY)

Step by Step Comprehensive Detailed Explanation with References:

- * Introduction:
- * Internal auditors use process mapping to document and understand the steps involved in a process.
- * Purpose of Narrative Memoranda:
- * Narrative memoranda are written descriptions that outline the steps of a process, often used when the process is straightforward.
- * Options Analysis:
- * Option A: Detailed risk assessment is usually more comprehensive and may require flowcharts or other detailed diagrams.
- * Option B: Identifying individuals who perform key roles typically requires organization charts or responsibility matrices.
- * Option C: Narrative memoranda are best suited for explaining simple processes in a clear and concise manner.
- * Option D: Documenting outputs that support other activities might require more detailed mapping techniques.
- * Conclusion:
- * Narrative memoranda are effective for explaining simple processes, providing a straightforward and understandable framework.

Internal Audit Standards and Practice Guides.

NEW QUESTION: 119

- Which of the following is the most appropriate method for gathering information about the presence and effectiveness of controls within an organization? A. ICQs B. Interviews C. Questionnaires D. ICQs
- A. ICQs
 - B. Interviews
 - C. Questionnaires
 - D. ICQs

Answer: C (LEAVE A REPLY)

Internal control questionnaires (ICQs) are used to gather information about the presence and effectiveness of controls within an organization. One of the limitations of ICQs is that the answers provided by respondents can be easily misinterpreted. This misinterpretation can occur due to unclear questions, differences in understanding terminology, or respondents not fully comprehending the context of the questions. Therefore, while ICQs are useful tools for identifying control issues, they require careful interpretation and often necessitate follow-up for clarification to ensure accurate understanding and assessment of the controls.

The Institute of Internal Auditors (IIA) Practice Guide: "Internal Control Questionnaires" IIA Standard 2310: Identifying Information

NEW QUESTION: 120

Which of the following is the most significant risk for an AI program in development that captures and uses images owned by others? AI programs are susceptible to material error, fraud, or noncompliance before considering controls. For an AI program in development, the immediate and significant risk lies in copyright and intellectual property violations if the program captures and uses images owned by others. This risk exists inherently and could lead to lawsuits, reputational damage, and regulatory sanctions.

- A. AI programs are susceptible to material error, fraud, or noncompliance before considering controls.
- B. AI programs are susceptible to copyright and intellectual property violations if the program captures and uses images owned by others.
- C. AI programs are susceptible to unauthorized use of third-party content.
- D. AI programs are susceptible to regulatory sanctions.

Answer: (SHOW ANSWER)

Inherent risk is the susceptibility of an activity to material error, fraud, or noncompliance before considering controls. For an AI program in development, the immediate and significant risk lies in copyright and intellectual property violations if the program captures and uses images owned by others. This risk exists inherently and could lead to lawsuits, reputational damage, and regulatory sanctions.

Options A and B represent possible outcomes but not immediate risks. Option D is a compliance issue but not immediate, as the regulation comes into force later. The most urgent and inherent risk is Option C, the unauthorized use of third-party content.

NEW QUESTION: 121

Which of the following is a schedule compression technique used in project management to shorten the project duration without changing the project scope? It involves adding additional resources to critical path activities to complete them faster. This method can lead to increased costs but aims to reduce the project timeline effectively. Crashing is often used when project deadlines are tight and time is more critical than budget.

- A. Project crashing
- B. Resource leveling
- C. Fast tracking
- D. Resource smoothing

Answer: D (LEAVE A REPLY)

Project crashing is a schedule compression technique used in project management to shorten the project duration without changing the project scope. It involves adding additional resources to critical path activities to complete them faster. This method can lead to increased costs but aims to reduce the project timeline effectively. Crashing is often used when project deadlines are tight and time is more critical than budget.

Project Management Institute (PMI) defines project crashing as a technique used to shorten the schedule duration for the least incremental cost by adding resources. This is detailed in the PMBOK Guide (Project Management Body of Knowledge).

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NEW QUESTION: 122

Which of the following is a schedule compression technique used in project management to shorten the project duration without changing the project scope? It involves adding additional resources to critical path activities to complete them faster. This method can lead to increased costs but aims to reduce the project timeline effectively. Crashing is often used when project deadlines are tight and time is more critical than budget.

- A. Project crashing
- B. Resource leveling
- C. Fast tracking
- D. Resource smoothing

This benchmarking approach can highlight unusual deviations from industry norms, which may signal errors or potential fraud.

References:

* "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)

* "Auditing and Assurance Services" (Messier, Glover, Prawitt)

NEW QUESTION: 125

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Answer: B (LEAVE A REPLY)

Application controls are specific to software applications and ensure that transactions are processed correctly and accurately. They include controls over input, processing, and output. In this scenario, examining application controls will help determine if sales staff can modify orders after shipping, as these controls directly impact how data is handled within the system.

References:

"Information Technology Auditing," which explains the role of application controls in maintaining data integrity and security.

NEW QUESTION: 126

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Answer: D (LEAVE A REPLY)

Discovery sampling is most effective for investigating the auditor's suspicion that the head of commercial lending has been granting loans without the required collateral. This sampling technique is designed to detect at least one occurrence of a specific characteristic (in this case, loans without collateral) within a population.

It is particularly useful for identifying fraud or non-compliance with specific policies and procedures.

Discovery sampling focuses on finding exceptions, making it suitable for the auditor's investigation into potential misconduct.

The IIA's Global Technology Audit Guide (GTAG) and The IIA's International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION: 127

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Answer: D (LEAVE A REPLY)

Preparing a detailed audit program is a critical component of engagement planning. This program outlines the specific procedures and tests that the internal auditor will perform to evaluate the effectiveness of controls. It ensures that the audit is conducted systematically and thoroughly, addressing all relevant risks and objectives.

A detailed audit program provides a clear roadmap for the audit, helping to ensure that all necessary areas are covered and that the audit's objectives are achieved.

The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing, Standard 2201 - Planning Considerations

NEW QUESTION: 133

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Answer: B (LEAVE A REPLY)

In the context of an internal audit observation, the cause component should be added to explain why the subsidiary has thousands of client contracts on paper instead of in the required electronic system. The cause helps identify the root reason behind the non-compliance with the organization's rules of record management.

In this case, the cause could be the lack of sufficient assistants to scan the contracts into the system. Including the cause in the observation provides clarity on the underlying issues and helps in formulating effective recommendations to address the problem.

The Institute of Internal Auditors (IIA) Standard 2410.A1 - Criteria for Communicating: "Final communication of engagement results must, where appropriate, contain the internal auditors' overall opinion and/or conclusions." IIA Practice Guide on "Root Cause Analysis"

NEW QUESTION: 134

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Answer: B (LEAVE A REPLY)

When internal controls are weak, it is important for the auditor to rely less on the internal controls and instead perform more substantive testing. Detail testing involves examining a larger number of individual transactions or balances to gather sufficient

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NEW QUESTION: 137

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Answer: (SHOW ANSWER)

If the branch manager decides not to act on a significant risk that was previously acknowledged, the CAE should escalate the issue to the board. The board has ultimate responsibility for risk management and needs to be informed about significant risks and the decisions made by management regarding these risks. This ensures transparency and allows the board to take appropriate action if necessary.

References:

The Institute of Internal Auditors (IIA) Standards
Risk Management Frameworks and Reporting

NEW QUESTION: 138

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Answer: B (LEAVE A REPLY)

When an internal auditor is asked to join a project team to help design controls in a software application, the most appropriate action is to advise the project team on how to develop effective controls. This advisory role ensures that the internal auditor provides expert guidance on control design without becoming directly responsible for implementation, maintaining their independence and objectivity. This approach allows the internal auditor to contribute valuable insights while ensuring that controls are properly integrated into the application.

IIA Standard 2120: Risk Management
IIA Practice Guide: Information Technology Controls

NEW QUESTION: 139

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Answer: B (LEAVE A REPLY)

When an internal auditor finds that there are no written policies regarding the treatment of suspense accounts, the most appropriate first response is to inquire with management about any undocumented policies or procedures that may be in place. This approach helps the auditor understand the existing practices and assess their adequacy. Jumping to conclusions without this understanding could lead to inaccurate audit findings.

Ensuring that the auditor comprehensively understands all relevant practices is crucial before evaluating their effectiveness or making recommendations.

IIA Standard 2210: Engagement Objectives

IIA Practice Guide: Auditing the Management of Internal Controls

NEW QUESTION: 140

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Answer: C (LEAVE A REPLY)

Both job order cost systems and process cost systems track three manufacturing cost elements: direct materials, direct labor, and manufacturing overhead. These cost elements are essential in calculating the total production cost and determining the cost per unit.

- * Direct Materials: The raw materials directly used in the production of goods.
- * Direct Labor: The wages of workers who are directly involved in manufacturing the products.
- * Manufacturing Overhead: Indirect costs associated with production, such as utilities, maintenance, and depreciation of equipment.

References:

"Cost Accounting: A Managerial Emphasis," which details the tracking of manufacturing costs in different costing systems .

NEW QUESTION: 141

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Answer: B (LEAVE A REPLY)

Sampling is commonly involved in reperformance and inspection procedures. Reperformance involves the internal auditor independently executing procedures or controls to verify the results obtained by the entity.

Inspection involves examining records, documents, or tangible assets. Both of these audit procedures frequently use sampling techniques to select items for testing, which helps ensure that the auditor's conclusions are based on representative data without the need to examine every item in the population.

The Institute of Internal Auditors (IIA) Practice Guide on "Audit Sampling" Generally Accepted Auditing Standards (GAAS) related to audit evidence and sampling

NEW QUESTION: 142

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Answer: (SHOW ANSWER)

If senior management decides to accept risks, such as doing business with a questionable vendor, and the chief audit executive (CAE) believes this poses a significant risk to the organization, the CAE should escalate the issue to the board. The board has the ultimate responsibility for overseeing risk management and can decide on the appropriate action to take in response to the risk.

IIA References:

- * IIA Standard 2600: Communicating the Acceptance of Risks states that when the CAE believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management. If the decision regarding risk remains unchanged, the CAE must inform the board.
- * The Practice Guide on Risk Management highlights the importance of the CAE keeping the board informed of significant risks that management has chosen to accept, particularly when these risks could have a material impact on the organization.

NEW QUESTION: 143

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Answer: B (LEAVE A REPLY)

In the initial risk assessment phase, it is critical for the internal auditor to understand the current policies and procedures in place. By obtaining the most current approved copies of the organization's privacy policy, the auditor can assess whether these policies are in compliance with privacy laws and are effectively implemented. This approach provides a solid foundation for understanding the existing controls and identifying areas where there may be gaps or weaknesses. Consulting with legal

counsel or a specialist can be subsequent steps if further expertise is needed, but understanding the internal policies is the primary and essential first step.
Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2210 - Engagement Objectives.

NEW QUESTION: 144

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Answer: B (LEAVE A REPLY)

Interim communications are used when urgent issues require immediate attention by management before the final audit report is issued (Standard 2440 - Disseminating Results).

- * Option A involves follow-up but does not require an interim report.
- * Option C is a whistleblower concern that would be investigated confidentially, not reported as an interim memo.
- * Option D reflects incomplete fieldwork, not a reporting need.
- * Option B, a material variance in inventory, represents a significant and immediate issue that requires prompt communication to management before the audit concludes.

Thus, the most appropriate situation for issuing an interim report is Option B.

NEW QUESTION: 145

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Answer: (SHOW ANSWER)

According to MA (Management Accounting) guidance and internal auditing standards, when assessing the likelihood of fraud risk, internal auditors should consider historical data and patterns within the organization. Past fraud allegations and actual occurrences provide valuable insights into potential vulnerabilities and areas where controls might have previously failed. This historical perspective helps in evaluating the current fraud risk environment and in identifying areas that require stronger controls or more vigilant monitoring.

IIA Practice Guide: "Assessing the Risk of Fraud"
COSO (Committee of Sponsoring Organizations of the Treadway Commission) Fraud Risk Management Guide

NEW QUESTION: 146

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Answer: C (LEAVE A REPLY)

To confirm the existence of a specific vehicle selected from the fixed asset register, the best indirect evidence would be to compare the registered details of the vehicle with a date-stamped photograph. This method provides a verifiable form of evidence that the vehicle exists and matches the details recorded in the asset register. It ensures that the vehicle is still in possession of the organization and can be indirectly verified without the need for physical presence at an off-site location.

IIA Practice Guide: " Auditing Fixed Assets "

COSO Internal Control - Integrated Framework

NEW QUESTION: 147

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Answer: D (LEAVE A REPLY)

Comprehensive and Detailed Explanation:

Per IIA Standard 2440 - Disseminating Results, if an engagement reveals issues that require urgent management action, the auditor should issue an interim communication rather than waiting for the final report. This ensures that management is alerted promptly to risks that could materially affect the organization.

Option A is not appropriate because developing corrective action plans is management's responsibility, not audit's. Option B, direct reporting to regulators, bypasses governance channels unless laws require immediate external reporting. Option C (risk assessment) is part of planning but does not satisfy the urgency of immediate communication. The best response is Option D: communicate the critical inconsistencies promptly to senior management through an interim report, allowing them to take timely corrective measures.

NEW QUESTION: 148

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Answer: (SHOW ANSWER)

According to IIA guidance, a chief audit executive (CAE) may request external consultants to complement internal audit activity (IAA) resources when the audit universe is extensive and diverse. This justifies the need for additional expertise and resources that the internal team may not possess, ensuring comprehensive coverage and effective audit processes. External consultants

can bring specialized skills and knowledge, enhancing the internal audit activity's ability to address a broad range of risks and issues within the organization. References: IIA Standard 1210 - Proficiency, IIA Practice Advisory 1210.A1-1

NEW QUESTION: 149

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Answer: (SHOW ANSWER)

Just-in-time (JIT) purchasing systems aim to minimize inventory levels by receiving goods only as they are needed in the production process, which requires tight integration with suppliers.

- * Vendor Linkage: JIT systems demand a highly efficient and responsive supply chain. Linking with vendors' computerized order entry systems ensures that orders are processed quickly and accurately, supporting the JIT philosophy.
- * Inspection: JIT systems often rely on high-quality suppliers to minimize the need for inspection upon arrival, focusing instead on preventive measures at the supplier's end.
- * Carrying Costs: A JIT system typically reduces carrying costs by keeping inventory levels low.
- * Supplier Base: The focus is often on a few reliable suppliers rather than increasing the number of suppliers.

References:

" Supply Chain Management: Strategy, Planning, and Operation, " which discusses the operational requirements and benefits of JIT systems.

NEW QUESTION: 150

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Answer: (SHOW ANSWER)

According to the IIA Standards, particularly Standard 2500 - Monitoring Progress, internal auditors are responsible for monitoring the disposition of results communicated to management. They need to assess whether management has taken appropriate action to address audit findings or has consciously accepted the risk of not taking action. The follow-up process is crucial to ensure that identified risks are managed effectively. References: = IIA's Standard 2500 - Monitoring Progress and Practice Guide on Follow-up Processes.

NEW QUESTION: 151

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* This standard requires that engagements be properly supervised to ensure that objectives are achieved, quality is maintained, and audit work is consistent with IIA standards. Peer reviews during fieldwork can help identify issues early and improve the overall quality of the audit.

* Fieldwork Peer Review:

* Quality Assurance: Peer reviews involve having another auditor review the work performed during fieldwork. This process helps identify any potential issues or improvements in real-time, ensuring that the final work product meets the required standards.

* Continuous Improvement: By incorporating peer reviews, the internal audit activity can ensure that best practices are followed, and any deviations from the standard audit process are corrected promptly.

* IIA Practice Advisory 2340-1:

* This advisory recommends peer reviews as a method to ensure quality and to provide feedback to auditors on their work, enhancing the effectiveness of the engagement.

* Option A (Assign an experienced manager): While supervision is essential, peer reviews provide additional quality checks beyond just monitoring by a manager.

* Option C (Standardized work program): This ensures consistency but may not be sufficient to ensure quality without additional review mechanisms.

* Option D (CAE personally supervising): This is not the most efficient use of the CAE's time. Peer review distributes the supervisory load and adds value through diverse perspectives.

Detailed Explanation: Why Not Other Options? Conclusion: Option B is correct as it aligns with best practices for quality assurance in internal auditing, particularly in ensuring the effectiveness and efficiency of the engagement through peer reviews during fieldwork.

NEW QUESTION: 154

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Answer: (SHOW ANSWER)

One of the primary drawbacks of using internal control questionnaires is the risk that management may not provide honest or accurate answers. This can occur due to a variety of reasons, including a lack of knowledge, intentional deception, or a misunderstanding of the questions. As a result, the responses may not accurately reflect the true state of the controls, leading to incomplete or misleading audit conclusions.

The Institute of Internal Auditors (IIA) Practice Guide: Assessing the Adequacy of Risk Management Using ISO 31000 IIA Standard 2310 - Identifying Information

NEW QUESTION: 155

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Answer: A (LEAVE A REPLY)

Comprehensive and Detailed Explanation:

According to IIA Standard 2440 - Disseminating Results, auditors must communicate observations in a timely manner, particularly when risks or compliance issues may need immediate action by management.

Providing preliminary information builds transparency and allows management to respond early to potential issues. However, auditors must emphasize that such observations are provisional and subject to change based on further evidence and supervisory review. Options B and D fail to recognize the value of early communication. Option C introduces unnecessary rigidity. Therefore, the most appropriate approach is Option A: accommodate the request and share significant preliminary observations while clarifying that they may evolve before final reporting.

NEW QUESTION: 156

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Answer: C (LEAVE A REPLY)

The most likely reason the Chief Audit Executive (CAE) decided to prepare an audit memorandum for management of the logistics department is to allow management to address the identified weakness timely. An audit memorandum serves as a formal communication that highlights the issue and provides management with the necessary details to understand and address the control weakness promptly. This approach facilitates immediate corrective action, thereby reducing the risk associated with the identified weakness.

The Institute of Internal Auditors (IIA) Standard 2420 - Quality of Communications: "Communications must be accurate, objective, clear, concise, constructive, complete, and timely." IIA Practice Guide on "Engagement Communication"

NEW QUESTION: 157

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Answer: (SHOW ANSWER)

The most appropriate conclusion for the auditor to include in the audit report is that the organization had weaknesses in its review process which allowed questionable transactions with some vendors. This conclusion directly addresses the identified issue of questionable vendor documentation and implies that there are control deficiencies in the review process that need to be addressed to prevent such occurrences in the future.

IIA Standards: 2410 - Criteria for Communicating

IIA Practice Guide: Reporting and Monitoring

NEW QUESTION: 158

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Answer: A (LEAVE A REPLY)

According to IIA guidance, the chief audit executive (CAE) is responsible for evaluating and verifying management 's response to audit recommendations. The CAE must also determine the need and scope for additional work based on the adequacy and timeliness of management 's corrective actions. This ensures that the audit recommendations are effectively implemented and that any residual risks are appropriately managed.

References: IIA Standard 2500 - Monitoring Progress, IIA Practice Advisory 2500.A1-1

NEW QUESTION: 159

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Answer: A (LEAVE A REPLY)

Risk Management Evaluation: During an audit engagement examining the effectiveness of risk management processes, the internal audit activity should focus on evaluating how the organization manages various types of risks, including fraud risk.

Fraud Risk Management: This involves assessing the organization's mechanisms for identifying, assessing, and responding to fraud risks. It also includes reviewing the effectiveness of controls in place to prevent and detect fraudulent activities.

IIA Standards: Standard 2120 - Risk Management emphasizes that internal auditors must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

Comprehensive Approach:

- * Risk Assessment: Ensuring that the organization conducts thorough risk assessments to identify potential fraud risks.
- * Control Environment: Evaluating the control environment to ensure it supports ethical behavior and reduces opportunities for fraud.
- * Fraud Prevention and Detection: Reviewing the policies and procedures in place to prevent and detect fraud, including whistleblower mechanisms and fraud response plans.

References:

- * Internal auditors play a crucial role in assessing the adequacy of fraud risk management, which is integral to the overall risk management process. By evaluating fraud risk management, auditors can provide assurance that the organization is effectively mitigating fraud risks.

NEW QUESTION: 160

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Answer: ([SHOW ANSWER](#))

Strategic goals are long-term, broad, and mission-driven.

- * Options A, B, and C represent short-term operational or tactical goals.
- * Option D (carbon neutrality in 5 years) represents a long-term strategic goal.

NEW QUESTION: 161

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

Matching invoices to receiving reports ensures the organization only pays for goods it has actually received, addressing completeness and accuracy in financial transactions. This procedure aligns with the COSO Internal Control Framework's principles regarding transaction processing and control activities. It mitigates risks of paying for unordered or unreceived goods, a common source of errors and potential fraud in the accounts payable process. The IIA's CIA Part 2 syllabus emphasizes testing of key controls in financial systems, including those preventing overpayments (Section II: Audit Engagements).

NEW QUESTION: 162

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C. The most critical situation for the chief audit executive (CAE) to report to the board is the disagreement with the business unit manager's initial decision to accept a particular risk, which was only addressed after discussion with senior management. This situation is critical because it involves a risk that was initially accepted without proper mitigation, which could have significant implications for the organization. Reporting this to the board ensures that they are aware of potential disagreements regarding risk acceptance and management's approach to risk mitigation.

D. The most critical situation for the chief audit executive (CAE) to report to the board is the disagreement with the business unit manager's initial decision to accept a particular risk, which was only addressed after discussion with senior management. This situation is critical because it involves a risk that was initially accepted without proper mitigation, which could have significant implications for the organization. Reporting this to the board ensures that they are aware of potential disagreements regarding risk acceptance and management's approach to risk mitigation.

Answer: A (LEAVE A REPLY)

The most critical situation for the chief audit executive (CAE) to report to the board is the disagreement with the business unit manager's initial decision to accept a particular risk, which was only addressed after discussion with senior management. This situation is critical because it involves a risk that was initially accepted without proper mitigation, which could have significant implications for the organization. Reporting this to the board ensures that they are aware of potential disagreements regarding risk acceptance and management's approach to risk mitigation.

IIA Standards: 2060 - Reporting to Senior Management and the Board

IIA Practice Guide: Reporting to the Board and Senior Management

NEW QUESTION: 163

IIA heat maps are tools used in risk assessment that visually represent the severity of risks by plotting them on a matrix based on their likelihood and impact. Heat maps are flexible and can be adjusted to prioritize either likelihood or impact depending on the specific context and the organization's risk appetite and tolerance. This recognition that the priority of impact and likelihood can vary allows for a more nuanced and tailored risk assessment approach.

A. Heat maps are tools used in risk assessment that visually represent the severity of risks by plotting them on a matrix based on their likelihood and impact. Heat maps are flexible and can be adjusted to prioritize either likelihood or impact depending on the specific context and the organization's risk appetite and tolerance. This recognition that the priority of impact and likelihood can vary allows for a more nuanced and tailored risk assessment approach.

B. Heat maps are tools used in risk assessment that visually represent the severity of risks by plotting them on a matrix based on their likelihood and impact. Heat maps are flexible and can be adjusted to prioritize either likelihood or impact depending on the specific context and the organization's risk appetite and tolerance. This recognition that the priority of impact and likelihood can vary allows for a more nuanced and tailored risk assessment approach.

C. Heat maps are tools used in risk assessment that visually represent the severity of risks by plotting them on a matrix based on their likelihood and impact. Heat maps are flexible and can be adjusted to prioritize either likelihood or impact depending on the specific context and the organization's risk appetite and tolerance. This recognition that the priority of impact and likelihood can vary allows for a more nuanced and tailored risk assessment approach.

D. Heat maps are tools used in risk assessment that visually represent the severity of risks by plotting them on a matrix based on their likelihood and impact. Heat maps are flexible and can be adjusted to prioritize either likelihood or impact depending on the specific context and the organization's risk appetite and tolerance. This recognition that the priority of impact and likelihood can vary allows for a more nuanced and tailored risk assessment approach.

Answer: (SHOW ANSWER)

According to IIA guidance, heat maps are tools used in risk assessment that visually represent the severity of risks by plotting them on a matrix based on their likelihood and impact. Heat maps are flexible and can be adjusted to prioritize either likelihood or impact depending on the specific context and the organization's risk appetite and tolerance. This recognition that the priority of impact and likelihood can vary allows for a more nuanced and tailored risk assessment approach.

IIA Practice Guide: Assessing the Risk Management Process

IIA Standard 2120: Risk Management

NEW QUESTION: 164

Risk appetite is the amount and type of risk an organization is willing to pursue or retain to achieve its objectives. It reflects the organization's overall approach to risk-taking and is typically articulated at the highest level of the organization.

A. Risk tolerance refers to the acceptable variation relative to the achievement of specific objectives. It is more granular and specific than risk appetite, detailing the levels of risk that are acceptable within the parameters set by the organization's risk appetite.

B. Risk tolerance refers to the acceptable variation relative to the achievement of specific objectives. It is more granular and specific than risk appetite, detailing the levels of risk that are acceptable within the parameters set by the organization's risk appetite.

C. Risk tolerance refers to the acceptable variation relative to the achievement of specific objectives. It is more granular and specific than risk appetite, detailing the levels of risk that are acceptable within the parameters set by the organization's risk appetite.

D. Risk tolerance refers to the acceptable variation relative to the achievement of specific objectives. It is more granular and specific than risk appetite, detailing the levels of risk that are acceptable within the parameters set by the organization's risk appetite.

Answer: C (LEAVE A REPLY)

* Definition of Risk Appetite: Risk appetite is the amount and type of risk an organization is willing to pursue or retain to achieve its objectives. It reflects the organization's overall approach to risk-taking and is typically articulated at the highest level of the organization.

Reference: COSO's Enterprise Risk Management Framework.

Definition of Risk Tolerance: Risk tolerance refers to the acceptable variation relative to the achievement of specific objectives. It is more granular and specific than risk appetite, detailing the levels of risk that are acceptable within the parameters set by the organization's risk appetite.

Reference: IIA's Practice Guide on Risk Management.

Distinguishing the Two Concepts: Risk appetite is broad and sets the overall boundaries for risk-taking, while risk tolerance is more specific, outlining acceptable risk levels for particular objectives within the broader risk appetite framework.

Practical Example: An organization may have a high risk appetite, accepting significant risks to achieve growth, but its risk tolerance for operational risks (such as system failures) may be low, indicating minimal acceptable deviations from expected performance.

Conclusion: The correct answer is C, as risk appetite represents the organization's general level of risk acceptance, whereas risk tolerance is more specific and detailed, falling under the broader scope of risk appetite.

NEW QUESTION: 165

3. Which of the following is a key objective of an internal audit function?
A. To provide assurance on the organization's risk management processes.
B. To provide assurance on the organization's financial reporting.
C. To provide assurance on the organization's operational performance.
D. To provide assurance on the organization's compliance with laws and regulations.

1. To provide assurance on the organization's risk management processes.
 2. To provide assurance on the organization's financial reporting.
 3. To provide assurance on the organization's operational performance.
 4. To provide assurance on the organization's compliance with laws and regulations.
- A. 1 & 3.
B. 1 & 4.
C. 2 & 3.
D. 2 & 4.

Answer: C (LEAVE A REPLY)

When conducting a review of an electronic data interchange (EDI) application provided by a third-party service, the internal auditor should ensure several key aspects to maintain security and compliance:

- * Independent Review of Service Provider: Determine whether an independent review of the service provider's operations has been conducted. This review helps ensure that the service provider meets necessary standards and maintains adequate controls.
- * Contractual Clauses: Verify that the service provider's contracts include necessary clauses. These clauses should cover aspects like data security, confidentiality, compliance with standards, and performance metrics.

Ensuring encryption keys meet ISO standards and verifying the use of public-switched data networks are important but are more specific technical controls that might be part of broader reviews. The focus here should be on independent verification and robust contractual agreements

NEW QUESTION: 166

IIA 2210 - Engagement Objectives, objectives must be established for each engagement and should reflect a preliminary risk assessment. Findings (A) come after testing, resources (B) are allocated later, and the audit plan (D) applies at the annual activity level. Thus, the correct answer is audit objectives (C).

- A. To provide assurance on the organization's risk management processes.
B. To provide assurance on the organization's financial reporting.
C. To provide assurance on the organization's operational performance.
D. To provide assurance on the organization's compliance with laws and regulations.

Answer: C (LEAVE A REPLY)

According to Standard 2210 - Engagement Objectives, objectives must be established for each engagement and should reflect a preliminary risk assessment. Findings (A) come after testing, resources (B) are allocated later, and the audit plan (D) applies at the annual activity level. Thus, the correct answer is audit objectives (C).

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NEW QUESTION: 167

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Answer: B (LEAVE A REPLY)

- * A. Vendor contracts: While vendor contracts may reveal terms, they do not directly identify potential conflicts of interest.
- * B. Employee master list: Correct. Comparing the employee master list with vendor information can help identify conflicts of interest, such as vendor ownership or employee relationships.
- * C. Payment records: Useful for verifying transactions but not for identifying conflicts of interest.
- * D. Purchasing policy: Provides guidelines but does not assist directly in identifying conflicts.

CIA Exam Syllabus Reference:

Domain II: Risk Management and Control - Identifying and Mitigating Conflicts of Interest.

NEW QUESTION: 168

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Answer: C (LEAVE A REPLY)

Facilitated team workshops are a risk assessment approach that involves gathering data from work teams representing different levels of an organization. This method encourages collaboration and open discussion among team members, allowing for a comprehensive identification and evaluation of risks from various perspectives within the organization. It helps in capturing a wide range of insights and facilitates consensus on risk priorities, making it a valuable tool for effective risk assessment. The Institute of Internal Auditors (IIA) Practice Guide on " Risk Assessment in Audit Planning " COSO Enterprise Risk Management Framework

NEW QUESTION: 169

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Answer: A (LEAVE A REPLY)

An internal control questionnaire (ICQ) is a commonly used tool in the assessment of entity-level controls. It is a structured set of questions that auditors use to gather information about the controls in place within an organization. However, while this method can be efficient for gathering broad-based information, it has certain limitations, one of the most significant being that the information obtained can be repudiated.

Repudiation refers to the possibility that the information provided by respondents can be denied or questioned later. This is a key drawback because the responses in an ICQ are typically self-reported and may not be fully accurate or reliable.

Respondents may either misunderstand the questions or provide answers that are overly optimistic, biased, or not fully truthful. This can compromise the reliability of the evidence gathered through this method.

IIA References:

* According to IIA's International Professional Practices Framework (IPPF), particularly in the Implementation Guides that accompany the Standards, internal auditors are encouraged to use various techniques for gathering evidence to ensure the completeness, accuracy, and reliability of the information. The guide cautions that self-reported data, such as that obtained through questionnaires, should be corroborated with additional evidence.

* IIA Standard 2310: Identifying Information states that internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives. The limitations of the ICQ, particularly the risk of repudiation, directly relate to the reliability of the information obtained.

* Additionally, the IIA's Practice Guide on Evaluating Internal Controls suggests that while ICQs are useful in gaining an initial understanding of control environments, they should not be relied upon as the sole source of evidence. This emphasizes the need for corroborative evidence to address the risk of repudiation.

Given these considerations, the correct answer is A. Information obtained by this method can be repudiated because the self-reported nature of ICQs inherently carries the risk of repudiation, thus questioning the reliability of the control assessment finding

NEW QUESTION: 175

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Answer: (SHOW ANSWER)

* A. Book value per common share ratio is lower than that of the prior year: This represents year-over-year comparison, which is an example of historical benchmarking, not internal benchmarking.

* B. Staff turnover ratio is higher than the comparable organization in the same industry: This represents external benchmarking, as it involves comparing against a peer organization.

* C. Utilities expense of the sales unit is higher than that of the customer service unit: Correct. This is internal benchmarking, as it compares performance metrics within the same organization.

* D. Sales are significantly higher than the industry's average for five years: This is an example of external benchmarking against the industry standard.

CIA Exam Syllabus Reference:

Domain V: Performing Internal Audit Services - Benchmarking Techniques.

NEW QUESTION: 176

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Explanation:

The most objective way to validate hours worked is to cross-check billed hours with independent evidence of presence - such as access logs (C) from security or entry systems. This provides direct evidence that contracted personnel were on-site.

- * Option A (due diligence review) focuses on vendor selection, not time validation.
- * Option B relies on vendor-supplied data, which may be manipulated.
- * Option D provides insights but is subjective.

According to IIA Standard 2310, evidence must be reliable and verifiable. Access logs provide such assurance, making Option C the strongest choice.

NEW QUESTION: 177

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Answer: A (LEAVE A REPLY)

For audit evidence to be considered reliable, it must be accurate, truthful, and verifiable. The absence of the bank heading, logo, or address on the bank statements raises concerns about the authenticity and integrity of the documents. Without these elements, there is no assurance that the statements are legitimate and have not been tampered with or falsified. Therefore, this evidence may not be reliable for audit purposes.

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

" Auditing: A Risk-Based Approach to Conducting a Quality Audit " by Karla M. Johnstone, Audrey A.

Gramling, Larry E. Rittenberg

NEW QUESTION: 178

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Answer: A (LEAVE A REPLY)

Proper engagement supervision is documented through formal records that show a systematic review and oversight process. A completed engagement workpaper review checklist provides evidence that the supervisor has reviewed and approved the work done by the audit team. This formal checklist ensures all critical aspects of the engagement are reviewed systematically, meeting the standards for proper supervision documentation.

References:

* "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)

* "International Standards for the Professional Practice of Internal Auditing" (IIA)

NEW QUESTION: 179

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Answer: B (LEAVE A REPLY)

Non-Assurance Engagements: Non-assurance engagements focus on advisory and consulting services rather than providing an independent assessment. These engagements aim to add value by offering insights and recommendations to management.

Objective Characteristics:

* Informing Management: Providing information on potential risks and advising on risk management strategies is typical for non-assurance engagements. This helps management make informed decisions and manage risks effectively.

* Assessment and Compliance: Options A, C, and D are more aligned with assurance engagements, where the internal audit activity provides an independent assessment or ensures compliance with policies and procedures.

IIA Guidance:

* Standard 2120 - Risk Management: Internal auditors must evaluate and contribute to the improvement of risk management processes, often through advisory services in non-assurance roles.

References:

* Non-assurance engagements focus on informing and advising management about risks, improvements, and strategic decisions, as exemplified by informing management about risks related to moving the data warehouse to a third-party cloud server.

NEW QUESTION: 180

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Answer: A (LEAVE A REPLY)

The chief audit executive (CAE) has the responsibility to communicate audit results, including residual risks, to senior management. According to IIA Standard 2410 - Criteria for Communicating, the CAE should communicate the engagement's objectives, scope, conclusions, recommendations, and action plans. Residual risk, being a part of the audit outcome, should be reported at the same time as the audit results to ensure that senior management is fully informed of all aspects of the engagement. This allows senior management to understand the remaining risks after control measures have been applied. The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing, Standard 2410 - Criteria for Communicating

NEW QUESTION: 181

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

Answer: B (LEAVE A REPLY)

According to IIA guidance, the most important objectives for ensuring the appropriate completion of an engagement include coordinating audit team members to ensure efficient execution, confirming that engagement workpapers properly support the observations, recommendations, and conclusions, and ensuring that engagement objectives are reviewed for satisfactory achievement and are documented properly. These objectives focus on the quality and thoroughness of the audit work, which are critical for the engagement's success. References:

- * IIA Standards - 2300: Performing the Engagement
- * IIA Practice Guide - Audit Documentation

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NEW QUESTION: 182

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Answer: D (LEAVE A REPLY)

A properly supervised engagement ensures that the audit is conducted effectively, efficiently, and in accordance with IIA standards. The auditor in charge has the responsibility to oversee the audit process and ensure that the engagement objectives are achieved.

* IIA Standard 2340 - Engagement Supervision:

* This standard requires that engagements be supervised to ensure that objectives are achieved, work is performed according to appropriate standards, and the results are supported by sufficient, relevant, and reliable evidence.

* Reasonable Assurance:

* The auditor in charge must provide reasonable assurance that the audit engagement's objectives were met. This involves reviewing work performed, ensuring compliance with audit standards, and verifying that conclusions are supported by adequate evidence.

* IIA Practice Advisory 2340-1:

* The advisory emphasizes the role of the auditor in charge in providing oversight throughout the audit engagement. This includes ensuring that auditors follow procedures, apply professional judgment, and that all significant findings are appropriately addressed.

* Option A (Daily record review): While keeping a record is good practice, it does not constitute comprehensive supervision.

* Option B (Review by peers): Peer review is useful but does not replace the overarching responsibility of the auditor in charge.

* Option C (Accompanying new auditors): This is part of training and guidance but does not alone ensure that engagement objectives are met.

Detailed Explanation: Why Not Other Options?

NEW QUESTION: 183

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Answer: A (LEAVE A REPLY)

The IIA Standards emphasize that the chief audit executive (CAE) should develop the internal audit plan based on a thorough assessment of risks facing the organization. This risk-based approach ensures that the most significant and relevant areas are prioritized. While input from senior management and regulatory requirements are also important, the primary driver should be the most recent and comprehensive risk assessment. References:

* IIA Standards - 2010: Planning

* IIA Practice Guide - Developing the Risk-based Internal Audit Plan

NEW QUESTION: 184

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Answer: B (LEAVE A REPLY)

The chief audit executive (CAE) is responsible for the approval of the engagement objectives and scope.

While the head of customer service and other stakeholders may provide input, it is ultimately the CAE ' s responsibility to ensure that the engagement aligns with the internal audit plan and meets the organization ' s overall objectives. The CAE ' s approval ensures the independence and objectivity of the internal audit function.

The Institute of Internal Auditors (IIA) Standard 2010 - Planning

IIA Standard 2200 - Engagement Planning

NEW QUESTION: 185

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Answer: D (LEAVE A REPLY)

The most effective time for an internal auditor to develop a risk and control matrix is during the planning phase of an audit engagement. This matrix helps in identifying the key risks and the controls in place to mitigate those risks, which is crucial for developing a focused and effective engagement work program.

IIA References:

* IIA Standard 2201: Planning Considerations requires internal auditors to consider significant risks and controls when planning the engagement. Developing a risk and control matrix at this stage ensures that the audit work is appropriately targeted at the most critical areas.

* The Practice Guide on Risk Assessment advises that creating a risk and control matrix during planning helps in structuring the audit to address identified risks effectively.

NEW QUESTION: 186

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Answer: D (LEAVE A REPLY)

The most effective management action to prevent similar issues in the future involves both corrective and preventive measures. Coaching the IT specialist addresses the immediate knowledge gap and mistake that occurred. Introducing a secondary control, such as a review or verification step, ensures that future access requests are granted correctly, thereby preventing similar errors. This combination addresses the root cause and adds a layer of assurance. References:

* "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)

* "IT Control Objectives for Sarbanes-Oxley" (IT Governance Institute)

NEW QUESTION: 187

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Explanation:

The most significant concern is the replacement of auditor judgment with AI outputs (C). Per the Global Internal Audit Standards, auditors must exercise professional judgment in planning, evaluating evidence, and forming conclusions. While AI can enhance efficiency and flag anomalies, final risk assessments must remain the responsibility of auditors. Option A (variations in answers) and Option D (acceptance issues) are secondary operational risks. Option B is incorrect - generative AI can interpret free-text responses, though with limitations. The core issue is ensuring that AI supports, but does not replace, human professional judgment. Therefore, the correct answer is Option C.

NEW QUESTION: 188

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Answer: B (LEAVE A REPLY)

The accounting treatment should reflect the actual costs incurred. Training costs are recognized as they are completed, regardless of the delivery status of the aircraft. For the aircraft production, the costs should be accounted for based on the actual production hours completed to date. This ensures that the financial records accurately represent the work performed and the expenses incurred. References: = Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) on contract accounting and cost recognition.

NEW QUESTION: 189

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Answer: ([SHOW ANSWER](#))

When an internal auditor receives a document displaying all the steps of a process and the path taken as transactions flow between each step, the auditor is most likely to use this document to perform an assessment of the adequacy of process controls. This flowchart or process map helps the auditor understand the process, identify key control points, and evaluate whether the existing controls are sufficient to mitigate risks within the process.

IIA Standards: 2201 - Planning the Engagement

IIA Practice Guide: Internal Auditing and Fraud

NEW QUESTION: 192

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D. 1, 3, 4

Answer: ([SHOW ANSWER](#))

According to IIA guidance, the internal audit plan should be based on an assessment of risks to the organization (1), designed to determine the effectiveness of the organization's risk management process (2), and aligned with the organization's goals (4).

The development of the audit plan is typically the responsibility of the chief audit executive, often with input from senior management and the audit committee, rather than being solely developed by senior management (3). References: IIA Standard 2010 - Planning, IIA Practice Guide - Developing the Internal Audit Plan

NEW QUESTION: 193

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

The primary reason for internal auditors to conduct interim communications with management of the area under review is to provide timely discussion of results. This allows management to be informed of preliminary findings and issues as they arise, enabling quicker corrective actions and avoiding surprises in the final report. Interim communications help ensure that audit results are relevant and actionable. References:

* The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2410 - Criteria for Communicating.
* The IIA's Practice Guide on Communicating Results.

NEW QUESTION: 194

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Answer: B (LEAVE A REPLY)

According to the IIA guidance, reviewing and approving payroll timesheets by the timekeeper before processing is considered least effective in managing the risk of payroll fraud. While this procedure might detect some errors or irregularities, it does not provide a robust control against fraud because the timekeeper can collude with employees or fail to review timesheets adequately. On the other hand, procedures such as comparing payroll lists to personnel records, deactivating payroll database access upon termination, and validating changes to payroll by the personnel department involve checks and balances that are more effective at preventing or detecting fraudulent activities.

IIA Practice Guide: Managing the Business Risk of Fraud: A Practical Guide IIA Standards and Guidance: IPPF - Practice Guide

NEW QUESTION: 195

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

Answer: B (LEAVE A REPLY)

When identifying audit resource requirements, the chief audit executive (CAE) should consider approaching an external service provider to conduct internal audits in areas where the organization lacks the necessary skills (2). This ensures that audits are conducted by individuals with the appropriate expertise. Additionally, communicating to senior management a summary report on the status and adequacy of audit resources (4) keeps them informed about the internal audit activity's capacity and any resource constraints. Considering employees from other operational areas as audit resources (1) could compromise objectivity and independence, while suggesting deferral of audits (3) is generally not advisable as it might leave significant risks unaddressed. References: IIA Standard 2030 - Resource Management, IIA Practice Advisory 2030-1

NEW QUESTION: 196

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- A. The auditor should verify that the new IT system addresses the previously identified risks. This involves reviewing the system documentation and ensuring that the controls in the new system effectively mitigate the risks.
- B. The auditor should verify that the new IT system addresses the previously identified risks. This involves reviewing the system documentation and ensuring that the controls in the new system effectively mitigate the risks. IT is not the auditor's responsibility to verify that the controls in the new system effectively mitigate the risks.
- C. The auditor should verify that the new IT system addresses the previously identified risks. This involves reviewing the system documentation and ensuring that the controls in the new system effectively mitigate the risks. Advising management and escalating is premature if the new system may already address the issues.
- D. The auditor should verify that the new IT system addresses the previously identified risks. This involves reviewing the system documentation and ensuring that the controls in the new system effectively mitigate the risks. Requiring additional details about the process may be unnecessary if the auditor can verify the controls directly.

Answer: A (LEAVE A REPLY)

Verification of Controls: The auditor should verify that the new IT system addresses the previously identified risks. This involves reviewing the system documentation and ensuring that the controls in the new system effectively mitigate the risks.

IIA Standard 2500 - Monitoring Progress, which emphasizes the need for auditors to follow up on management ' s corrective actions.

Reporting: Once the auditor has confirmed that the new system controls address the risks, they can report to senior management and close the outstanding issue, ensuring that all audit recommendations are appropriately resolved.

Other Options:

Accepting Management ' s Explanation: Without verification (option B) is not appropriate as it may leave risks unmitigated.

Escalating Without Verification: Advising management and escalating (option C) is premature if the new system may already address the issues.

Detailed Process Evaluation: Requiring additional details about the process (option D) may be unnecessary if the auditor can verify the controls directly.

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NEW QUESTION: 197

Which of the following is a tool used by auditors to gather detailed information about the internal control system of an audited area?

- A. Internal control questionnaire
- B. Risk assessment questionnaire
- C. Control self-assessment questionnaire
- D. Control matrix

Answer: (SHOW ANSWER)

An internal control questionnaire (ICQ) is a tool used by auditors to gather detailed information about the internal control system of an audited area. The primary purpose of an ICQ is to identify and assess risks that could prevent the area from achieving its objectives. By systematically covering various control points, the questionnaire helps the auditor evaluate the adequacy and effectiveness of controls in place and identify areas where controls may be lacking or need improvement.

The Institute of Internal Auditors (IIA) - Practice Guide: Internal Control Questionnaire

NEW QUESTION: 198

Which of the following is the primary advantage of using internal control questionnaires (ICQs) as part of a preliminary survey for an engagement?

- A. ICQs are more efficient than other methods.
- B. ICQs are more cost-effective than other methods.
- C. ICQs provide more detailed information than other methods.
- D. ICQs are more comprehensive than other methods.

Answer: B (LEAVE A REPLY)

The primary advantage of using internal control questionnaires (ICQs) as part of a preliminary survey for an engagement is their efficiency. ICQs allow auditors to quickly gather a large amount of information about the control environment by asking structured questions that cover key areas of interest. This helps in identifying areas that require further investigation or where controls may need improvement.

IIA References:

* The IIA's Practice Guide on Evaluating Internal Controls mentions that ICQs are useful for obtaining an initial understanding of controls and are particularly efficient when time or resources are limited.

They allow auditors to systematically cover a wide range of control-related topics in a relatively short period.

NEW QUESTION: 199

Which of the following is the primary reason for conducting a preliminary risk assessment during engagement planning?

- A. To ensure that significant risks are included in the engagement scope.
- B. To identify areas of highest risk.
- C. To ensure that the audit provides the most value by addressing the most critical issues that could impact the organization's objectives.
- D. To identify areas of lowest risk.

Answer: D (LEAVE A REPLY)

The primary reason for conducting a preliminary risk assessment during engagement planning is to ensure that significant risks are included in the engagement scope. This assessment helps the internal auditor focus on areas of highest risk, ensuring that the audit provides the most value by addressing the most critical issues that could impact the organization's objectives.

IIA Standards: 2201 - Planning Considerations

IIA Practice Guide: Engagement Planning

NEW QUESTION: 200

Which of the following is the primary factor that the auditor in charge primarily considers when assigning tasks to audit team members?

- A. The auditors' experience and availability.
- B. The need for outside resources.
- C. The sufficiency of budgeted hours.
- D. The quality and efficiency of the audit.

Answer: C (LEAVE A REPLY)

When assigning tasks to audit team members, the auditor in charge primarily considers factors that directly affect the quality and efficiency of the audit, such as the auditors' experience and availability, as well as the need for outside resources. While the sufficiency of budgeted hours is important for overall audit planning, it is not a direct factor in the assignment of specific tasks to

* Mechanistic Organizations: Option B is incorrect because MBO is more effective in flexible, dynamic organizations rather than rigid, mechanistic ones.

* Strategic vs. Operational Goals: Option D is incorrect because MBO does not inherently distinguish between strategic and operational goals; it focuses on achieving specific measurable objectives.

References:

* MBO helps in increasing employee motivation by involving them in the goal-setting process and aligning their objectives with the organization's goals, which enhances engagement and performance.

NEW QUESTION: 203

When the board requests consulting services to gain insight regarding external risks, the appropriate engagement objective is to assess the organization's ability to minimize these risks. This involves evaluating the organization's risk management framework, including identifying external risks, assessing their potential impact, and reviewing the effectiveness of the strategies and controls in place to mitigate these risks. By doing so, internal auditors provide valuable insights into how well the organization is prepared to handle external threats and ensure the achievement of its annual objectives.

- A. Assess the organization's ability to minimize these risks.
- B. Evaluate the organization's risk management framework, including identifying external risks, assessing their potential impact, and reviewing the effectiveness of the strategies and controls in place to mitigate these risks.
- C. Review the effectiveness of the strategies and controls in place to mitigate these risks.
- D. Provide valuable insights into how well the organization is prepared to handle external threats and ensure the achievement of its annual objectives.

Answer: (SHOW ANSWER)

When the board requests consulting services to gain insight regarding external risks, the appropriate engagement objective is to assess the organization's ability to minimize these risks. This involves evaluating the organization's risk management framework, including identifying external risks, assessing their potential impact, and reviewing the effectiveness of the strategies and controls in place to mitigate these risks. By doing so, internal auditors provide valuable insights into how well the organization is prepared to handle external threats and ensure the achievement of its annual objectives.

Institute of Internal Auditors (IIA) Standards: Performance Standards 2110: Governance COSO Enterprise Risk Management (ERM) Framework: Risk Assessment and Risk Response Components

NEW QUESTION: 204

When the internal audit activity lacks the necessary IT expertise to review the information security function, the chief audit executive (CAE) should contract an external service provider with the required experience. This ensures that the audit is conducted effectively and in accordance with the Standards, which require internal auditors to have or acquire the necessary skills to perform their work.

- A. Contract an external service provider with the required experience.
- B. Review the information security function with the required expertise.
- C. Provide valuable insights into how well the organization is prepared to handle external threats and ensure the achievement of its annual objectives.
- D. Assess the organization's ability to minimize these risks.

Answer: C (LEAVE A REPLY)

When the internal audit activity lacks the necessary IT expertise to review the information security function, the chief audit executive (CAE) should contract an external service provider with the required experience.

This ensures that the audit is conducted effectively and in accordance with the Standards, which require internal auditors to have or acquire the necessary skills to perform their work.

IIA References:

* IIA Standard 1210: Proficiency requires internal auditors to possess the knowledge, skills, and other competencies needed to perform their responsibilities. When the necessary expertise is not available within the internal audit activity, the CAE must obtain competent advice and assistance by either contracting external experts or outsourcing the audit.

* The Practice Guide on Engaging External Service Providers suggests that when specialized skills are required, engaging an external service provider is a practical solution to ensure the audit ' s quality and effectiveness.

NEW QUESTION: 205

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Answer: C (LEAVE A REPLY)

* Professional Responsibility: Internal auditors are expected to demonstrate their commitment to professional standards and ethics.

* Code of Ethics: The IIA's Code of Ethics outlines principles that internal auditors must follow, including integrity, objectivity, confidentiality, and competency.

* Annual Declaration: Signing an annual declaration reinforces the auditor's commitment to these principles and ensures ongoing adherence to the professional standards.

* Demonstration of Due Care: By signing this declaration, auditors formally acknowledge their responsibility to uphold ethical standards, which is a demonstration of due professional care.

References:

The IIA's Code of Ethics.

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

NEW QUESTION: 206

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Answer: (SHOW ANSWER)

* A. Draft report:Delays action on the weakness, which could be addressed sooner.

* B. Preliminary observation document:While helpful, this is not as immediate as verbal communication.

* C. Final report:Waiting until the final report would unnecessarily delay corrective action.

* D. Verbal communication during the engagement, followed by the final report issuance:Correct. Verbal communication allows immediate management action, with documentation to follow.

CIA Exam Syllabus Reference:

Domain V: Performing Internal Audit Services - Effective Communication of Findings.

NEW QUESTION: 207

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Answer: B (LEAVE A REPLY)

When significant control issues are identified during a consulting engagement, it is the responsibility of the chief audit executive to ensure that these issues are communicated to senior management and the board. This ensures that the organization is aware of the risks and can take corrective action. Consulting engagements should not overshadow the priority of addressing critical control issues that may affect the organization's risk profile. References:

- * "International Standards for the Professional Practice of Internal Auditing" (IIA Standards)
- * "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)

NEW QUESTION: 208

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Answer: A (LEAVE A REPLY)

When developing a talent management strategy, a chief audit executive would find a gap analysis most helpful. A gap analysis identifies the differences between the current skills and competencies of the internal audit staff and the skills and competencies needed to achieve the audit function's objectives. This analysis helps in understanding the specific areas where training, recruitment, or other talent development efforts are necessary, thus enabling the development of a targeted and effective talent management strategy.

IIA Practice Guide: "Talent Management for Internal Auditors"
 IIA Standard 2030: "Resource Management"

NEW QUESTION: 209

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Answer: A (LEAVE A REPLY)

Comprehensive and Detailed Explanation:

To validate whether risks identified internally reflect industry risks, the auditor should compare the organization's risk profile with peer organizations, industry standards, and external best practices. This process is known as benchmarking (A). Benchmarking helps the auditor assess if management has overlooked emerging or common industry risks.

- * Trend analysis (B) evaluates changes over time within the same organization, not external comparison.
- * Ratio analysis (C) focuses on financial metrics, not risk identification.
- * Observation (D) provides operational insights but not industry comparisons.

Therefore, benchmarking is the correct tool, aligning with IIA guidance that encourages auditors to consider both internal and external environments in risk assessments.

NEW QUESTION: 210

The corporate risk register is a comprehensive document that records identified risks, their assessment in terms of likelihood and impact, and the controls in place to manage them. It reflects the organization's attitude toward risk and highlights areas where achieving objectives may be difficult. The CAE should consult this resource to align the audit plan with the organization's risk profile and ensure that high-risk areas are appropriately audited. References:

- A. IIA Standards - 2010: Planning
- B. IIA Practice Guide - Risk Management
- C. IIA Standards - 2010: Reporting
- D. IIA Standards - 2010: Internal Control

Answer: A (LEAVE A REPLY)

The corporate risk register is a comprehensive document that records identified risks, their assessment in terms of likelihood and impact, and the controls in place to manage them. It reflects the organization's attitude toward risk and highlights areas where achieving objectives may be difficult. The CAE should consult this resource to align the audit plan with the organization's risk profile and ensure that high-risk areas are appropriately audited. References:

- * IIA Standards - 2010: Planning
- * IIA Practice Guide - Risk Management

NEW QUESTION: 211

Demonstrating due professional care involves using appropriate technology and data analysis techniques to enhance the audit's effectiveness and efficiency. These tools help auditors identify anomalies, trends, and potential areas of risk more accurately and timely, reflecting a higher standard of care in their audit activities.

- A. IIA Standards - 2010: Reporting
- B. IIA Standards - 2010: Internal Control
- C. IIA Standards - 2010: Planning
- D. IIA Practice Guide - Risk Management

Answer: (SHOW ANSWER)

Demonstrating due professional care involves using appropriate technology and data analysis techniques to enhance the audit's effectiveness and efficiency. These tools help auditors identify anomalies, trends, and potential areas of risk more accurately and timely, reflecting a higher standard of care in their audit activities.

References:

"Auditing Standards and Guidelines," which emphasize the importance of using advanced techniques in audit processes.

IIA-CIA-Part2-KR IIA-CIA-Part2-KR questions and answers, DumpTop IIA-CIA-Part2-KR! DumpTop IIA-CIA-Part2-KR questions and answers, DumpTop IIA-CIA-Part2-KR questions and answers. <https://www.dumptop.com/IIA/IIA-CIA-Part2-KR-dump.html> (709 Q&As Dumps, **30%OFF Special Discount: KrDump**)

NEW QUESTION: 212

The corporate risk register is a comprehensive document that records identified risks, their assessment in terms of likelihood and impact, and the controls in place to manage them. It reflects the organization's attitude toward risk and highlights areas where achieving objectives may be difficult. The CAE should consult this resource to align the audit plan with the organization's risk profile and ensure that high-risk areas are appropriately audited. References:

- A. IIA Standards - 2010: Reporting

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Answer: D (LEAVE A REPLY)

During the planning phase of an assurance engagement, one of the key supervisory activities is approving the audit work programs. This step ensures that the planned procedures are appropriate for achieving the engagement objectives and that the audit scope is adequately covered. Supervisory activities like ensuring alignment with engagement objectives, reviewing draft reports, and ensuring workpapers support findings typically occur during the fieldwork or reporting phases. Approving the audit work programs at the planning stage helps to ensure that the engagement is well-directed and thorough.

The Institute of Internal Auditors (IIA) - Standards for the Professional Practice of Internal Auditing, Standard 2200 - Engagement Planning

NEW QUESTION: 213

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Answer: (SHOW ANSWER)

During the planning stage of an assurance engagement, internal auditors should focus their attention on identifying and assessing inherent risks. Inherent risk is the risk of a material misstatement or noncompliance due to error or fraud that could occur before any controls are applied. Understanding inherent risk is crucial as it helps auditors identify areas that may need more extensive testing and ensures that audit resources are appropriately allocated to the highest risk areas.

The Institute of Internal Auditors (IIA) Practice Guide: Assessing the Adequacy of Risk Management Using ISO 31000 IIA Standard 2010 - Planning

NEW QUESTION: 214

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Answer: (SHOW ANSWER)

When developing a workpaper preparation policy, it is essential to ensure that all workpapers are directly related to the engagement objectives. The term "relevant" in this context means that the workpapers must be pertinent and appropriate to the audit engagement's objectives, ensuring that they support the findings, conclusions, and recommendations.

* IIA Standard 2330 - Documenting Information:
 * This standard requires that internal auditors document relevant information to support engagement conclusions and recommendations. Relevance is key because it ensures that the documentation directly pertains to the objectives of the audit engagement.

* Relevance of Workpapers:

* Relevant workpapers are those that provide evidence and information that directly supports the audit's objectives. This relevance ensures that the audit's findings and conclusions are based on information that is applicable and directly related to the scope of the audit.

* IIA Practice Advisory 2330-1:

* The advisory suggests that workpapers should be organized and structured in a way that clearly relates to the audit objectives. Including a requirement for relevance in the workpaper policy helps ensure that all documented evidence is pertinent to the audit's goals.

* Option A (Understandable): While workpapers should be understandable, this does not directly address the need for workpapers to relate to the engagement objectives.

* Option C (Economical): Workpapers being economical refers to their efficiency in documentation, not their relevance to objectives.

* Option D (Complete): Completeness is important but refers to the extent of documentation rather than its relevance to specific objectives.

Detailed Explanation: Why Not Other Options? Conclusion: Option B is correct because including the requirement that workpapers be relevant ensures that they directly relate to the engagement objectives, aligning with IIA standards on documentation.

NEW QUESTION: 215

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

Professional skepticism is an essential attitude for internal auditors, particularly when assessing the risk of fraud. According to the IIA's Practice Guide "Internal Auditing and Fraud", one of the red flags that may heighten an internal auditor's professional skepticism is the presence of employees whose qualifications or credentials do not match the requirements of their positions. In this case, a procurement manager lacking the expected academic credentials raises concerns because it could indicate potential fraudulent activities such as unqualified decision-making or manipulation of procurement processes.

Reference: IIA Practice Guide "Internal Auditing and Fraud"

NEW QUESTION: 216

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Answer: C (LEAVE A REPLY)

Preliminary communication with HR management is essential to ensure a smooth audit process. According to IIA guidance, the auditor in charge (AIC) should notify HR management before the planning stage begins to facilitate cooperation and alignment. Additionally, scheduling formal status meetings at the start of the engagement helps in setting expectations, clarifying the scope, and ensuring ongoing communication throughout the audit process. These steps foster transparency and collaboration.

References:

* IIA Standards - 2200: Engagement Planning

* IIA Practice Advisory - 2200-1: Engagement Planning

NEW QUESTION: 217

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Answer: (SHOW ANSWER)

Stratified sampling is used when the population can be divided into distinct subgroups (strata) that differ significantly from each other but are internally homogeneous. In the context of auditing, revenue earned through cash receipts or as receivables would have different characteristics and risk profiles. Stratifying the population allows the auditor to ensure that each subgroup is adequately represented in the sample, leading to more reliable and accurate audit conclusions.

The Institute of Internal Auditors (IIA) Practice Guide: Audit Sampling IIA Standard 2320 - Analysis and Evaluation

NEW QUESTION: 218

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Answer: B (LEAVE A REPLY)

Entity-level controls set the tone and establish the framework for the overall control environment within an organization. If these controls are poorly designed or deficient, they can undermine the effectiveness of process-level controls, even if those controls are well-designed. Entity-level controls include governance, risk management, and compliance controls that influence the entire organization. Therefore, deficiencies at this level can have a widespread impact, preventing lower-level controls from functioning properly.

Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2130 - Control.

NEW QUESTION: 219

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Answer: D (LEAVE A REPLY)

When the internal audit activity lacks the expertise to perform an audit engagement in a specialized area like IT, the most appropriate action for the CAE is to outsource the engagement to a reputable IT audit consulting firm. This ensures that the audit is conducted by professionals with the necessary skills and experience, thereby maintaining the quality and reliability of the audit.

IIA References:

- * IIA Standard 1210: Proficiency requires that internal auditors possess the knowledge, skills, and other competencies needed to perform their responsibilities. When the internal audit activity does not have the required expertise for a specific engagement, the CAE must obtain competent advice and assistance, either by hiring external experts or outsourcing the work.
- * IIA Standard 2070: External Service Provider and Organizational Responsibility for Internal Auditing advises that when the internal audit activity uses external service providers, the CAE must ensure that the provider possesses the necessary skills and knowledge.

NEW QUESTION: 220

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Answer: B (LEAVE A REPLY)

In flat organizational structures, there are fewer hierarchical levels, which can create challenges with career progression and promotion opportunities (B).

- * Option A applies to hierarchical structures.
 - * Option C is associated with centralized structures.
 - * Option D contradicts flat structures, where employees typically have more autonomy.
- Thus, the key risk is unclear career and promotion paths.

NEW QUESTION: 221

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Answer: ([SHOW ANSWER](#))

Proper engagement planning is essential to ensure that the internal audit engagement is conducted effectively and efficiently. Completing and approving the planning phase before starting the fieldwork ensures that all objectives, scope, resources, and methodologies are well-defined and agreed upon.

This preparation helps in aligning the engagement with the overall audit strategy and reduces the risk of scope changes or misalignments during fieldwork

NEW QUESTION: 222

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

When preparing a detailed risk assessment during engagement planning, the internal auditor should collaborate with the management of the function being reviewed. Management has the most in-depth knowledge of their business objectives, processes, and the associated risks. This cooperation ensures that the risk assessment is comprehensive, accurate, and relevant to the specific context of the function under review.

It also helps in identifying any potential areas of concern that might not be evident to external parties.

IIA Standard 2201: "Planning Considerations"

IIA Practice Guide: "Assessing the Adequacy of Risk Management Processes"

NEW QUESTION: 223

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Answer: ([SHOW ANSWER](#))

According to the International Standards for the Professional Practice of Internal Auditing, particularly Standard 2420 - Quality of Communications, internal audit communications should be accurate, objective, clear, concise, constructive, complete, and timely. Ensuring that communications are relevant, logical, and free from errors is essential for maintaining the credibility and effectiveness of the internal audit function and for providing management with reliable information for decision-making.

Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2420 - Quality of Communications.

NEW QUESTION: 224

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Observations are limited to current proceedings and do not account for how policies were applied in past cases, making this approach less comprehensive.

* D. Conduct an interview to assess the disciplinary hearing chairman's understanding of the policy and its appropriate use: Interviews provide insight into understanding and intent but do not offer evidence of actual compliance.

CIA Exam Syllabus Reference:

Domain V: Performing Internal Audit Services - Evidence Collection and Assessment Methods.

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<https://www.dumptop.com/IIA/CIA-Part2-KR-dump.html> (709 Q&As Dumps, **30%OFF Special Discount: KrDump**)

NEW QUESTION: 227

The most reliable source of testimonial evidence regarding whether a process is effectively performed according to its design would be the supervisor in charge of the process. This is because supervisors are typically responsible for overseeing the day-to-day operations and ensuring that processes are followed correctly. They have a comprehensive understanding of the process and can provide valuable insights into its effectiveness and adherence to design. The reliability of evidence increases with the proximity of the individual to the process in question and their role in ensuring compliance and performance.

- A. The process owner
- B. The process manager
- C. The process supervisor
- D. The process designer

Answer: C (LEAVE A REPLY)

The most reliable source of testimonial evidence regarding whether a process is effectively performed according to its design would be the supervisor in charge of the process. This is because supervisors are typically responsible for overseeing the day-to-day operations and ensuring that processes are followed correctly. They have a comprehensive understanding of the process and can provide valuable insights into its effectiveness and adherence to design. The reliability of evidence increases with the proximity of the individual to the process in question and their role in ensuring compliance and performance.

IIA's Global Technology Audit Guide (GTAG) - Testimonial Evidence.

NEW QUESTION: 228

IIA's Global Technology Audit Guide (GTAG) - Testimonial Evidence.

1. The process owner
2. The process manager
3. The process supervisor
4. The process designer

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

Answer: D (LEAVE A REPLY)

According to IIA guidance, the chief audit executive (CAE) is responsible for reviewing and approving the final audit report and determining who will receive it. The CAE ensures that the report is complete, accurate, and disseminated to appropriate parties. Including management's responses in the final report and coordinating post-engagement conferences with management, while important, are not the CAE's primary responsibilities.

IIA Standards: 2440 - Disseminating Results

IIA Practice Guide: Communicating Results to Management and the Board

NEW QUESTION: 229

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Answer: (SHOW ANSWER)

For compliance engagements, particularly those related to critical processes such as cash disbursements, it is important to distribute the final audit report to individuals with oversight and decision-making responsibilities. The accounts payable manager oversees the process, the chief financial officer (CFO) has overall financial oversight, and the audit committee provides governance and oversight of the audit function.

This ensures that the report is reviewed by those with the authority to implement changes and address any issues identified.

References:

- * IIA Standards - 2440: Disseminating Results
- * IIA Practice Advisory - 2440-1: Disseminating Results

NEW QUESTION: 230

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Answer: B (LEAVE A REPLY)

The observation in question includes the condition ("no approved credit risk management policy" and "17 out of 50 contacts showed clients with a poor credit history") and the cause (the subsidiary concluding contacts with high-risk clients). However, it lacks the effect, which should explain the potential or actual impact of this deficiency on the organization (e.g., financial losses, increased credit risk). Additionally, it is missing the criteria, which should reference the specific rules or policies that are not being followed (e.g., the organization's credit risk management policy requirements). Including these components would provide a complete and actionable observation.

The Institute of Internal Auditors (IIA) - Practice Guide: Audit Reports and Working Papers

NEW QUESTION: 231

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Answer: (SHOW ANSWER)

Direct observation by the auditor provides the strongest and most reliable evidence of inventory existence, per IIA Standard 2310: Identifying Information. Observational evidence is primary and directly verifiable, whereas third-party confirmations (Option B) or photographs (Option D) may be manipulated. Interviews with personnel (Option C) provide insight but lack objectivity and reliability compared to physical observation. This aligns with the CIA syllabus emphasis on collecting sufficient and appropriate audit evidence (Part 2: Section II).

NEW QUESTION: 232

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Answer: A (LEAVE A REPLY)

The primary objective of an internal audit engagement supervisor is to uphold the quality of the internal audit actively. This involves ensuring that the audit procedures are performed effectively, the findings are accurate and reliable, and the audit meets the necessary professional standards. The supervisor oversees the audit team's work, provides guidance and support, and ensures that the engagement is conducted according to the internal audit plan and methodology. This role is crucial in maintaining the credibility and integrity of the audit function.

IIA Standard 2340: Engagement Supervision
IIA Practice Guide: Internal Auditing and Assurance

NEW QUESTION: 233

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Answer: C (LEAVE A REPLY)

When an internal audit team leader encounters difficulties due to the lack of a system of internal controls, the most appropriate course of action is to add a consulting component to the scheduled assurance engagement.

This approach allows the internal audit team to provide advice and recommendations on establishing internal controls while still fulfilling their assurance responsibilities. By integrating consulting activities, the auditors can help the business unit improve its control environment, which can then be assessed in the assurance engagement.

The Institute of Internal Auditors (IIA) Practice Guide: Consulting Engagements IIA Standard 1130 - Impairment to Independence or Objectivity

NEW QUESTION: 234

Which of the following is the most effective way to compile an internal control questionnaire (ICQ)?

- A. Use open-ended questions to obtain detailed narrative responses.
- B. Use multiple-choice questions to obtain standardized responses.
- C. Use open-ended questions to obtain detailed narrative responses.
- D. Use multiple-choice questions to obtain standardized responses.

Answer: A (LEAVE A REPLY)

Comprehensive and Detailed Explanation:

The purpose of an internal control questionnaire (ICQ) is to determine whether required control activities are formally in place. The most effective way to compile an ICQ is to develop statements reflecting procedure requirements and ask for yes/no responses (A). This ensures responses can be compared consistently across business units. Open-ended (B) or detailed narrative questions (C) are less efficient and harder to standardize.

Multiple-choice (D) resembles a test and is not aligned with ICQ's objective. According to CIA exam guidance, ICQs are designed to confirm the existence and adherence to specified controls. Therefore, Option A is the most suitable.

NEW QUESTION: 235

According to the IIA guidance, engagement supervisors' review notes are used during the audit process to ensure thoroughness and accuracy. Once these review notes have been addressed, they can be removed from the final documentation. This practice ensures that the final audit report is clear and concise, containing only the necessary documentation to support audit findings and conclusions. The review notes are considered part of the working papers during the review process but do not need to be retained in the final audit documentation once all issues have been resolved.

- A. They are used during the audit process to ensure thoroughness and accuracy.
- B. They are used during the audit process to ensure thoroughness and accuracy.
- C. They are used during the audit process to ensure thoroughness and accuracy.
- D. They are used during the audit process to ensure thoroughness and accuracy.

Answer: (SHOW ANSWER)

According to the IIA guidance, engagement supervisors' review notes are used during the audit process to ensure thoroughness and accuracy. Once these review notes have been addressed, they can be removed from the final documentation. This practice ensures that the final audit report is clear and concise, containing only the necessary documentation to support audit findings and conclusions. The review notes are considered part of the working papers during the review process but do not need to be retained in the final audit documentation once all issues have been resolved.

The Institute of Internal Auditors (IIA) Standard 2330 - Documenting Information: "Internal auditors must document relevant information to support the conclusions and engagement results." IIA Practice Guide on "Audit Documentation"

NEW QUESTION: 236

Which of the following is the most effective way to compile an internal control questionnaire (ICQ)?

- A. Use open-ended questions to obtain detailed narrative responses.
- B. Use multiple-choice questions to obtain standardized responses.
- C. Use open-ended questions to obtain detailed narrative responses.
- D. Use multiple-choice questions to obtain standardized responses.

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- C. 2 □ 3.
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Answer: ([SHOW ANSWER](#))

When conducting a review of an electronic data interchange (EDI) application provided by a third-party service, it is essential to determine whether an independent review of the service provider's operation has been conducted and to verify that the service provider's contracts include necessary clauses. These steps ensure that the service provider operates securely and meets the organization's requirements for data protection and service reliability.

IIA References:

- * IIA Standard 2100: Nature of Work indicates that internal audit should evaluate the adequacy and effectiveness of controls, including those at third-party service providers. Verifying that an independent review has been conducted and ensuring that contracts contain the necessary clauses are critical steps in assessing these controls.
- * The Practice Guide on Third-Party Risk Management advises internal auditors to review the service provider's contractual agreements and independent audit reports to assess the adequacy of controls and compliance with standards.

NEW QUESTION: 237

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

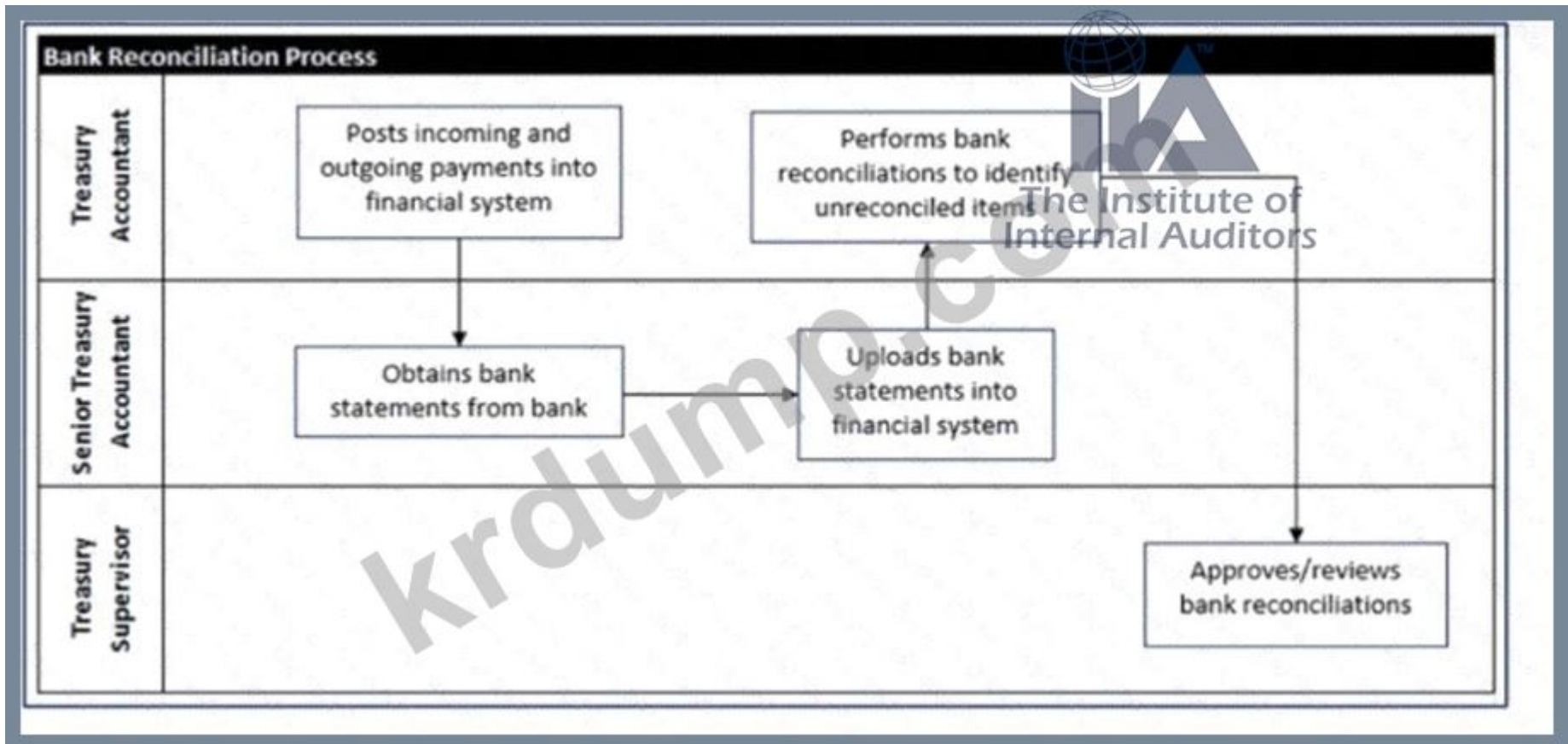
The board manages several key processes to ensure adequate governance within an organization, one of which is the development, approval, and execution of the strategic plan. This process is critical because it defines the organization's direction, goals, and the actions required to achieve these goals.

- * Strategic Planning: The board plays a pivotal role in setting the organization's strategic direction, which includes establishing long-term goals and defining the means to achieve them.
- * Performance Measurement: While the board may establish and measure performance objectives for the internal audit activity, this is part of a broader governance framework.
- * Risk Management: The board also develops strategies to mitigate risks, ensuring that the organization can achieve its objectives effectively.

Thus, the most comprehensive governance-related process managed by the board involves strategic planning

NEW QUESTION: 238

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Answer: B (LEAVE A REPLY)

The flowchart indicates that different individuals are responsible for various stages of the bank reconciliation process. The Treasury Accountant posts payments and performs reconciliations, while the Senior Treasury Accountant obtains and uploads bank statements, and the Treasury Supervisor approves/reviews the reconciliations. This segregation of duties ensures that no single individual has control over all aspects of the financial transaction process, which helps in preventing errors and fraud.

The Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards) "Auditing and Assurance Services" by Alvin A. Arens, Randal J. Elder, and Mark S. Beasley

NEW QUESTION: 239

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Answer: A (LEAVE A REPLY)

NEW QUESTION: 240

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Answer: (SHOW ANSWER)

To determine whether company vehicles are being used for personal purposes, the auditor needs location and route data of the vehicles in addition to the initial data extracted. This additional information would allow the auditor to track the specific routes and destinations of the vehicles, making it possible to identify patterns of use that do not align with business purposes, especially during weekends. The location and route data can help in pinpointing any non-business-related usage of the vehicles, providing evidence of personal use.

IIA Practice Guide: " Auditing Operational Activities "
COSO Internal Control - Integrated Framework

NEW QUESTION: 241

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Answer: (SHOW ANSWER)

Performing an entity-level controls analysis helps the auditor understand the overarching framework of activities and subprocesses within the accounts payable function. This approach provides a high-level view of the control environment and how different processes interrelate and contribute to the overall control objectives. By understanding the framework, the auditor can identify key controls, assess their design and implementation, and determine areas of potential risk. This foundational understanding is crucial before delving into more detailed, transaction-level testing.

Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2130 - Control.

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NEW QUESTION: 242

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Answer: D (LEAVE A REPLY)

- * Descriptive analytics explains what happened.
- * Diagnostic analytics explains why it happened.
- * Predictive analytics forecasts what may happen in the future using historical patterns.
- * Prescriptive analytics suggests actions to take.

Since the goal is to forecast potentially fraudulent behavior before it occurs, this is predictive analytics (D).

NEW QUESTION: 243

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Answer: B (LEAVE A REPLY)

Flowcharts provide a visual depiction of the processes in the area under review, helping internal auditors and stakeholders understand the workflow and identify key control points. Additionally, flowcharts highlight control points, which assist auditors in evaluating the design of controls. These visual tools make it easier to identify potential gaps or weaknesses in the control design and understand how different processes and controls interact. They do not reduce the need for testing whether employees are observing internal control processes or directly prioritize internal control design weaknesses. The IIA's International Standards for the Professional Practice of Internal Auditing, Standard 2201 - Planning Considerations.

NEW QUESTION: 244

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Answer: A (LEAVE A REPLY)

Per Standard 2330 - Documenting Information, workpapers must be sufficient, reliable, relevant, and useful.

Irrelevant workpapers that do not support engagement objectives should not be retained, as they clutter documentation and weaken audit quality. The supervisor should ensure that only workpapers directly tied to objectives are included, which makes Option A correct.

NEW QUESTION: 245

Which of the following is the most appropriate action for an auditor to take when identifying irrelevant workpapers?

- A. Retain all workpapers until the audit is complete, then review them for relevance.
- B. Retain all workpapers until the audit is complete, then delete those that are irrelevant.
- C. Delete all workpapers that are not directly related to the audit objectives.
- D. Delete all workpapers that are not directly related to the audit objectives, but retain those that are relevant.

Answer: A (LEAVE A REPLY)

Management's use of judgment in designing, implementing, and conducting internal control is crucial for adapting to unique circumstances and complexities within an organization.

- * Enhanced Decision-Making: Judgment allows management to tailor controls to the specific risks and operational realities of the organization, improving overall effectiveness.
- * Limitations: While judgment improves decision-making, it cannot eliminate all risks or guarantee perfect outcomes due to inherent uncertainties and limitations in predicting all possible scenarios.
- * Appropriate Use: It is appropriate for management to use judgment in applying accounting principles and assessing internal controls' presence and functioning.
- * Inappropriateness: It would be incorrect to say that judgment diminishes decision-making capabilities or is inappropriate for assessing internal control components.

References:

"Internal Control - Integrated Framework" by COSO, which highlights the importance and limitations of judgment in internal control processes.

NEW QUESTION: 246

Which of the following is the most appropriate action for an auditor to take when identifying irrelevant workpapers?

- A. Retain all workpapers until the audit is complete, then review them for relevance.
- B. Retain all workpapers until the audit is complete, then delete those that are irrelevant.
- C. Delete all workpapers that are not directly related to the audit objectives.
- D. Delete all workpapers that are not directly related to the audit objectives, but retain those that are relevant.

Answer: B (LEAVE A REPLY)

Sending written preliminary observations to the audit client serves an important purpose in the audit process. It allows internal auditors to convey their findings clearly and helps in highlighting the significance of the issues identified during the audit.

- * IIA Standard 2410 - Criteria for Communicating:
 - * This standard requires that communication must be accurate, objective, clear, concise, constructive, complete, and timely. Written observations help ensure that these criteria are met, particularly in expressing the significance of the audit findings.
- * Importance of Written Communication:

- * Clarity and Precision: Written communication allows the auditor to carefully craft the message, ensuring that the findings are communicated clearly and precisely, reducing the risk of misinterpretation.
- * Expressing Significance: By putting observations in writing, auditors can emphasize the importance of the findings, ensuring that the client understands the potential impact on the organization.
- * IIA Practice Advisory 2410-1:
 - * This advisory suggests that written observations allow auditors to provide a detailed explanation of the findings, including the root cause, potential effects, and recommendations. This is particularly important when the auditor needs to convey the seriousness or significance of the issues found.
 - * Option A (Allows more interpretation): Written observations are intended to reduce misinterpretation, not increase it.
 - * Option C (Equally effective): Written observations often have more weight and permanence than verbal ones, especially in formal settings.
 - * Option D (Limits premature agreement): This is not the primary purpose of written observations; rather, it is to clearly express the auditor's findings and their significance.

Detailed Explanation: Why Not Other Options? Conclusion: Option B is correct as it highlights the role of written observations in conveying the significance of audit findings, consistent with IIA guidance on effective communication.

NEW QUESTION: 247

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Answer: C (LEAVE A REPLY)

- * Current ratio (A) measures general liquidity (Current Assets ÷ Current Liabilities).
 - * Quick ratio (C) (Quick Assets ÷ Current Liabilities) excludes inventory and prepaid expenses, giving a more immediate liquidity measure.
 - * Profit margin (B) measures profitability, and times interest earned (D) measures solvency.
- Thus, the best measure of immediate liquidity is the quick ratio (C).

NEW QUESTION: 248

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Answer: (SHOW ANSWER)

Reviewing and initialing internal audit workpapers ensures that the engagement has adequate supervision. This practice demonstrates that the supervisor has reviewed the work performed by the audit team, verified the accuracy and completeness of the documentation, and provided necessary guidance. It is a critical step in the quality assurance process, ensuring that the audit findings and conclusions are supported by sufficient and appropriate evidence.

NEW QUESTION: 253

Outsourcing fraud investigations to a third-party service provider can result in a lack of familiarity with the organization's specific operations, culture, and history. This can be a disadvantage as external investigators may require more time to understand the context and nuances of the organization, potentially affecting the efficiency and effectiveness of the investigation. References: = IIA Standard 1210 - Proficiency and IIA Practice Guide: "Internal Audit and Fraud".

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- C. 300.
- D. 400.

Answer: (SHOW ANSWER)

Outsourcing fraud investigations to a third-party service provider can result in a lack of familiarity with the organization's specific operations, culture, and history. This can be a disadvantage as external investigators may require more time to understand the context and nuances of the organization, potentially affecting the efficiency and effectiveness of the investigation. References: = IIA Standard 1210 - Proficiency and IIA Practice Guide: "Internal Audit and Fraud".

NEW QUESTION: 254

According to the International Standards for the Professional Practice of Internal Auditing (Standards) set by the Institute of Internal Auditors (IIA), internal audit functions are allowed flexibility in including consulting engagements in their annual plans.

- A. Consulting engagements are automatically included in the annual plan.
- B. Consulting engagements are included in the annual plan if they meet the criteria.
- C. Consulting engagements are included in the annual plan if they align with strategic objectives.
- D. Consulting engagements are included in the annual plan if they add significant value.

Answer: D (LEAVE A REPLY)

According to the International Standards for the Professional Practice of Internal Auditing (Standards) set by the Institute of Internal Auditors (IIA), internal audit functions are allowed flexibility in including consulting engagements in their annual plans. Standard 2010 - Planning states that "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." This risk-based plan should consider the potential value-add of consulting engagements. Consulting engagements that are expected to add significant value or align with strategic objectives are often included, but not all requests need to be automatically included unless they meet these criteria. Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2010 - Planning.

NEW QUESTION: 255

The primary purpose of creating a preliminary draft audit report is to facilitate communication with management of the area under review. This draft allows for discussion and feedback on the findings, recommendations, and any potential misunderstandings or disagreements before the final report is issued. It helps ensure that the final report is accurate, fair, and reflects the input of both the auditors and management.

- A. To facilitate communication with management of the area under review.
- B. To provide a final report to management.
- C. To provide a preliminary report to management.
- D. To provide a final report to the board of directors.

Answer: C (LEAVE A REPLY)

The primary purpose of creating a preliminary draft audit report is to facilitate communication with management of the area under review. This draft allows for discussion and feedback on the findings, recommendations, and any potential misunderstandings or disagreements before the final report is issued. It helps ensure that the final report is accurate, fair, and reflects the input of both the auditors and management.

References:

* The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2410 - Criteria for Communicating.

* The IIA's Practice Guide on Communicating Results.

NEW QUESTION: 256

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Answer: C (LEAVE A REPLY)

Depreciation methods allocate the cost of an asset over its useful life. Different methods impact the depreciation expense reported each year.

- * Option A: Sum of the years' digits.
- * This is an accelerated depreciation method, which results in higher depreciation expense in the early years but not as high as the double-declining balance method.
- * Option B: Declining balance.
- * This method also results in higher depreciation expenses in the early years but is less accelerated compared to the double-declining balance method.
- * Option C: Double-declining balance.
- * This is the most accelerated method of depreciation among the options listed. It results in the highest depreciation expense in the early years of the asset ' s life. After the mid-service point of the asset, the double-declining balance method will still produce higher depreciation expenses compared to other methods.
- * Option D: Straight line.
- * This method results in equal depreciation expenses each year over the asset ' s useful life, leading to lower depreciation expenses in the later years compared to accelerated methods.

Reference:

As per accounting principles and guidelines (e.g., GAAP and IFRS), the double-declining balance method is a form of accelerated depreciation that provides higher depreciation expenses earlier in the life of an asset. This method applies a constant rate of depreciation to the declining book value of the asset each year, which is why it results in the highest depreciation expense after the mid-service point.

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NEW QUESTION: 257

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Answer: (SHOW ANSWER)

According to Implementation Guidance on Independence and Objectivity (Standard 1110), internal auditors may serve in advisory roles as long as they avoid assuming management responsibility. If the CAE assigns a representative to a sensitive steering committee, the choice should be based on relevant expertise and experience to add value without compromising independence. Option D is correct: selecting an auditor with prior experience in mergers or due diligence ensures competence while maintaining objectivity.

Options A and B confuse the role of the auditor with gathering intelligence or strategy promotion. Option C is incorrect, as participation does not require only the CAE.

NEW QUESTION: 258

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Answer: C (LEAVE A REPLY)

- * Introduction:
- * The role of the internal audit activity within a risk and control framework is to provide independent assurance that management has established and is maintaining effective internal controls.
- * Responsibilities of Internal Audit:
- * Internal auditors evaluate and monitor the effectiveness of internal controls, ensuring they are designed and operating effectively to mitigate risks and achieve organizational objectives.
- * Options Analysis:
- * Option A: Internal audit does not constitute the first line of defense; this role is typically held by management.
- * Option B: While internal audit may provide recommendations, it does not direct the implementation of internal controls.
- * Option C: Verifying that management has met its responsibility for implementing effective controls aligns with the assurance role of internal audit.
- * Option D: Implementing the internal control framework is a management responsibility, not internal audit's.
- * Conclusion:
- * The best description of internal audit's responsibility within a risk and control framework is to verify that management has met its responsibility for implementing effective controls.

Internal Audit Standards and Practice Guides .

NEW QUESTION: 259

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Answer: C (LEAVE A REPLY)

Per Standard 2030 - Resource Management, the CAE must ensure appropriate resources are available for engagements. While budgets and IT tools matter, the most critical and challenging resource to allocate is qualified human resources. Skilled auditors with appropriate expertise are essential to meet objectives, and talent shortages often make this the hardest resource to secure.

NEW QUESTION: 260

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Answer: A (LEAVE A REPLY)

The primary reason the chief audit executive should consider the organization's strategic plans when developing the annual audit plan is that strategic plans reflect the organization's business objectives and overall attitude toward risk. Understanding the strategic direction of the organization helps the internal audit function align its activities with the key risks and objectives, ensuring that the audit plan is relevant and adds value to the organization by focusing on areas that could impact the achievement of strategic goals.

IIA Standards: 2010 - Planning
 IIA Practice Guide: Developing the Internal Audit Strategic Plan

NEW QUESTION: 261

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Answer: B (LEAVE A REPLY)

When concerned about whether a transaction is recorded in the correct period, the internal auditor should consult accounting principles, standards, and relevant guidelines to determine the appropriate timing of the entry. External auditor approval does not negate the internal auditor's responsibility to ensure that the transaction complies with established accounting standards and principles. Consulting the relevant guidelines provides an objective basis for assessing the accuracy of the transaction's recording.

The Institute of Internal Auditors (IIA) Standard 1220 - Due Professional Care: "Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor." Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) depending on the applicable framework.

NEW QUESTION: 262

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Answer: A (LEAVE A REPLY)

Confirmation letters are generally considered the most reliable source of documentary evidence because they involve direct verification of information with an independent third party. This type of evidence is less prone to bias or manipulation compared to internal documents like policy statements or remittance advices.

IIA References:

- * IIA Standard 2310: Identifying Information requires that internal auditors gather sufficient, reliable, relevant, and useful information to support engagement results. Third-party confirmations, such as confirmation letters, are considered highly reliable because they come from independent sources.
- * The Practice Guide on Audit Evidence highlights that external confirmations provide strong evidence of the accuracy of the information being audited.

NEW QUESTION: 263

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Answer: C (LEAVE A REPLY)

- * Identifying the Anomaly: The internal auditor has identified a discrepancy in the travel expenses of the department head, who frequently travels yet reports minimal expenses. This raises a red flag that needs further investigation.
- * Understanding the Context: It is important to determine if there are legitimate reasons for the discrepancy, such as special arrangements made for senior management travel, which could explain the absence of typical travel expenses like hotels, meals, and transportation.
- * Appropriate Next Step: Investigating whether there are any special arrangements for senior management travel (Option C) is the most logical next step. This helps in understanding the context and validating whether the discrepancy is justified or indicative of potential issues such as fraud or misreporting.

Reference: Internal auditing standards emphasize the need for auditors to understand the environment and context of the organization's operations when anomalies are detected.

Other Options Considered:

- Option A: Making a note for future follow-up is not proactive and delays addressing a potential issue.
- Option B: Analyzing supplier trends, while useful, does not directly address the travel expense anomaly.
- Option D: Estimating costs based on destinations can provide insights but does not explain potential legitimate arrangements made by the organization.

Conclusion: Investigating special arrangements regarding senior management travel (Option C) is the most appropriate step to understand the discrepancy and ensure there are no irregularities.

NEW QUESTION: 264

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Answer: D (LEAVE A REPLY)

The most appropriate course of action for the CAE is to evaluate the robustness and feasibility of the management's action plan to address the identified weaknesses. The CAE should monitor the implementation progress, key dates, and deliverables to ensure that corrective actions are on track and will effectively mitigate the risks within the stipulated timeline. References: = IIA Standard 2500 - Monitoring Progress.

NEW QUESTION: 265

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Answer: C (LEAVE A REPLY)

Per Standard 2340 - Engagement Supervision, engagement supervision includes reviewing and approving work programs, changes, and results to ensure objectives are met and quality is maintained. This activity is part of supervision (C), not reporting (A), monitoring (B), or risk assessment (D).

NEW QUESTION: 266

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Answer: C (LEAVE A REPLY)

- * Introduction:
- * In a vertically centralized organization, decision-making is concentrated among a small management team, potentially leading to various risks.
- * Risk Analysis:

* Option A: Lack of coordination among business units is less likely in a centralized structure as decisions are made by a central authority.

* Option B: Inconsistent operational decisions are less common as central management typically ensures alignment with organizational goals.

* Option C: Centralized decision-making can lead to suboptimal decisions due to a lack of diverse perspectives and delayed responses to local issues.

* Option D: Duplication of business activities is less relevant in a tightly controlled central structure.

* Conclusion:

* The primary risk in a vertically centralized organization is suboptimal decision-making, as the concentration of authority can result in a lack of responsiveness and consideration of all relevant factors.

Organizational Structure and Internal Control Theory.

NEW QUESTION: 267

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Answer: B (LEAVE A REPLY)

If a control is found to be poorly designed during the planning stage, testing its operating effectiveness becomes redundant because even a well-implemented but poorly designed control will not achieve its intended objectives. The primary focus should be on redesigning the control to ensure it is effective in mitigating risks. Therefore, the auditor should not have proceeded to test the operational effectiveness of a control that was already deemed poorly designed.

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

"Auditing: A Risk-Based Approach to Conducting a Quality Audit" by Karla M. Johnstone et al.

NEW QUESTION: 268

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Answer: C (LEAVE A REPLY)

Implementing environmental and social safeguards aligns with the broader organizational goal of achieving sustainable development.

These safeguards ensure that the organization operates in a manner that is environmentally responsible and socially conscious, which is crucial for long-term sustainability

NEW QUESTION: 269

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Answer: A (LEAVE A REPLY)

To obtain a general understanding of the natural gas market, the market share the organization wants to win, and the competitive advantage the organization may have, the best source of information is to interview responsible managers and read strategic documents. Managers involved in the new line of business will have insights into the market dynamics, strategic goals, and competitive positioning. Strategic documents will provide detailed plans and objectives, giving a comprehensive understanding of the organization's approach and expectations.

The Institute of Internal Auditors (IIA) Practice Guide: Business Acumen for Internal Auditors IIA Standard 2120 - Risk Management

NEW QUESTION: 270

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Answer: A (LEAVE A REPLY)

When planning an assurance engagement, especially for a foreign subsidiary, it is essential to communicate effectively with management to ensure transparency and set expectations. According to IIA guidance, the preliminary communication should include critical information that helps the management of the area under review understand the purpose, scope, and logistics of the audit.

- * IIA Standard 2201 - Planning Considerations:
 - * This standard emphasizes that the internal auditor should plan the engagement to achieve the engagement objectives effectively. It includes discussing the scope, objectives, timing, and resource allocations with management.
 - * Key Elements to Include in Preliminary Communication:
 - * Scope of the Engagement: Clearly defining what the audit will cover ensures that both the auditors and the management understand the boundaries and focus areas of the audit.
 - * Estimated Time Frame: Providing a timeline helps management plan their activities and ensures that the audit process does not interfere with critical operations.
 - * Names of the Auditors: Identifying the audit team helps in establishing a working relationship and allows management to know who will be conducting the audit.
- * IIA Practice Advisory 2201-1:

* This advisory suggests that early communication of the scope, timing, and staffing helps in gaining the management's cooperation and sets the stage for a successful audit.

* Option B and D (Including resources and travel budget): These details are more administrative and do not need to be included in the preliminary communication to management.

* Option C (Resources, budget, and scope): While scope is important, resources and budget are internal matters and not essential in preliminary communication with management.

Detailed Explanation: Why Not Other Options? Conclusion: Option A is correct as it ensures that the management is informed about the key aspects of the audit that directly impact them, aligning with IIA's standards for audit planning and communication.

NEW QUESTION: 271

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Answer: (SHOW ANSWER)

In this situation, the internal auditor has identified a significant risk related to the failure to maintain air quality monitoring equipment. Since the CEO and the manager have acknowledged the risk but decided not to take corrective action due to cost concerns, the chief audit executive (CAE) should escalate the issue to the board. This step is necessary to ensure that the board is fully informed of the potential regulatory and reputational risks.

* IIA Standard 2600 - Communicating the Acceptance of Risks:

* This standard requires the CAE to communicate to senior management and the board when management has accepted a level of risk that the CAE believes is unacceptable. The board needs to be made aware of the situation to ensure they can take appropriate action if needed.

* Risk Communication:

* The CAE's responsibility includes ensuring that all significant risks are communicated to the highest level of the organization. In this case, the potential for regulatory sanctions and reputational damage due to inaccurate air quality monitoring is a significant risk that the board should be aware of.

* IIA Practice Advisory 2600-1:

* The advisory emphasizes that when the CAE believes that management has accepted a level of risk that could be detrimental to the organization, it is the CAE's duty to escalate the matter to the board.

* Option A (Implement corrective actions): It is not the CAE's role to implement corrective actions; this responsibility lies with management.

* Option C (Discuss with external auditors): While external auditors can provide additional perspectives, the CAE should directly communicate significant risks to the board.

* Option D (Contact the regulatory agency): This is an extreme step that should only be considered if the organization fails to address the issue after internal escalation.

Detailed Explanation: Why Not Other Options?

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Answer: C (LEAVE A REPLY)

Inherent Risk: Inherent risk refers to the exposure to risk in its natural state, without considering any controls or mitigation measures. It is the risk that exists before any action is taken to manage it.

* Example: In the scenario of a snow removal company, the significant reduction in annual snowfall represents an inherent risk as it is a natural condition that affects the company's operations.

Other Risk Types:

* Residual Risk: This is the risk that remains after controls and mitigation strategies have been applied.

* Net Risk: Similar to residual risk, it is the risk that remains after considering existing controls.

* Accepted Risk: This is the risk that the organization knowingly accepts after evaluating its impact and likelihood.

Scenario Planning: The exercise of considering the impacts of reduced snowfall helps the company understand its inherent risks and prepare for potential adverse outcomes.

NEW QUESTION: 275

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Answer: (SHOW ANSWER)

* Introduction:

* Corporate Social Responsibility (CSR) involves companies taking responsibility for their impact on society and the environment beyond statutory obligations.

* Nature of CSR Reporting:

* CSR reporting is generally voluntary, although some regions and industries may have mandatory requirements.

* Options Analysis:

* Option A: Many CSR areas may overlap with the audit universe or annual audit plan, but not all.

* Option B: Investors may increasingly rely on CSR information, particularly in ESG (Environmental, Social, Governance) investing.

* Option C: CSR reporting is largely voluntary, unlike financial or regulatory reporting which is often mandatory.

* Option D: Operating management typically plays a significant role in CSR efforts and reporting.

* Conclusion:

* The correct statement regarding CSR is that it is largely voluntary, unlike many other areas of reporting responsibilities that impact stakeholders.

Internal Audit Standards and Practice Guides

NEW QUESTION: 276

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audit function is providing useful insights, recommendations, and assurance that align with management's needs and expectations, thus demonstrating the effectiveness of the audit activity.

Institute of Internal Auditors (IIA), Practice Guide - Measuring Internal Audit Effectiveness and Efficiency.

NEW QUESTION: 281

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Answer: A (LEAVE A REPLY)

The engagement's objective is compliance with project management principles. The corresponding work program aim is to evaluate whether project management guidance is applied in practice (A). Options B, C, and D reflect risk, legal, or strategy audits - not the stated project management compliance objective.

NEW QUESTION: 282

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Answer: D (LEAVE A REPLY)

Although technical specifications, confidentiality, and management approval were in place, the criteria for awarding the tender were not applied consistently. While economic feasibility was the stated criterion, the final selection was based on newest technology. This undermines transparency and equal treatment of bidders, key principles of fair procurement. Option D is therefore correct.

NEW QUESTION: 283

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Answer: (SHOW ANSWER)

- * Introduction:
 - * Horizontal analysis involves comparing financial data across multiple periods to identify trends and patterns over time.
 - * Year-over-Year Trends:
 - * This method helps in understanding changes in financial performance and position year-over-year.
 - * Options Analysis:
 - * Option A: Horizontal analysis is directly related to comparing data year-over-year.
 - * Option B: Vertical analysis involves comparing items on a financial statement as a percentage of a base figure within the same period.
 - * Option C: Common-size analysis is a type of vertical analysis where all items are expressed as a percentage of a common base.
 - * Option D: Ratio analysis evaluates relationships between different financial statement items but is not primarily focused on year-over-year trends.
 - * Conclusion:
 - * Horizontal analysis is most closely associated with year-over-year trends as it involves reviewing financial data across periods.
- Financial Analysis and Reporting Guidelines

NEW QUESTION: 284

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Answer: D (LEAVE A REPLY)

Internal control questionnaires are used to determine whether specific control procedures are in place within an organization. They help auditors identify the existence and implementation of controls designed to mitigate risks. These questionnaires can provide a preliminary understanding of the control environment and identify areas that may require further detailed testing. The Institute of Internal Auditors (IIA) Practice Guide: Using Internal Control Questionnaires to Assess Risk IIA Standard 2130 - Control

NEW QUESTION: 285

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Answer: (SHOW ANSWER)

A conservative working capital policy means maintaining higher current assets relative to current liabilities (e.g., higher cash balances, larger inventories). This increases liquidity but reduces profitability because funds are tied up in low-yield assets. Therefore, the expected result is high liquidity (Option C).

NEW QUESTION: 286

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Answer: D (LEAVE A REPLY)

Sorting the customer information is the most effective method for identifying duplicate accounts in a database of 100,000 customers. By sorting the database based on key identifiers such as customer name, address, or email, an internal auditor can quickly identify and review records that appear consecutively and have similar details, which is indicative of potential duplicates. This method is efficient and practical for handling large datasets.

References:

Internal Audit Data Analytics Techniques

Database Management Best Practices

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NEW QUESTION: 287

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Answer: (SHOW ANSWER)

The appropriate conclusion that can be drawn from the findings is that the internal controls guiding contract management are not operating effectively. The listed findings, such as noncompliance with contract provisions, lack of monitoring compliance with contract obligations and deliverables, and absence of contract agreements with key vendors, indicate significant control deficiencies in the contract management process.

These deficiencies suggest that the controls intended to ensure compliance and effective management of contracts are either inadequate or not functioning as intended.

IIA's Guide on Internal Controls and Audit Findings.

NEW QUESTION: 288

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Answer: D (LEAVE A REPLY)

When identifying specific processes to include in the scope of an assurance engagement, the most useful information for an internal auditor is recent area performance indicators against productivity metrics. This data helps the auditor identify areas with potential risks or inefficiencies that might warrant further examination.

* IIA Standard 2200 - Engagement Planning:

* This standard requires auditors to develop a plan for each engagement, including objectives and scope, based on a thorough understanding of the area under review. Performance indicators provide valuable insights into areas that may not be meeting productivity or efficiency targets.

* Use of Performance Indicators:

* Performance indicators allow the auditor to identify processes that may be underperforming or where there may be significant variances from expected outcomes. This helps in focusing the audit on areas with the greatest potential for improvement or risk.

* IIA Practice Advisory 2201-2:

* The advisory suggests that auditors should consider using performance data, such as productivity metrics, to determine where to focus their audit efforts. This data-driven approach ensures that the audit is relevant and adds value.

* Option A (Recognition awards): Awards do not provide insight into risks or underperformance that might require audit attention.

* Option B (Timing of the last audit): While useful, the timing alone does not indicate current risks or issues.

* Option C (Management's presentation): This may provide some insights, but it is often more narrative and less data-driven than performance indicators.

Detailed Explanation: Why Not Other Options? Conclusion: Option D is correct because recent performance indicators against productivity metrics provide the most relevant information for identifying processes to include in the scope of an assurance engagement, ensuring that the audit is focused on areas of significant risk or opportunity for improvement, in line with IIA standards.

NEW QUESTION: 289

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Answer: C (LEAVE A REPLY)

Standard 2340 - Engagement Supervision requires supervisors to review work performed and provide feedback to ensure sufficiency and appropriateness. The first step when finding insufficient information is to discuss the issue with the auditor who prepared the workpapers, clarify what was done, and guide improvements. Training material adjustments may follow later, but the immediate supervisory responsibility is to resolve the issue directly with the assigned auditor.

NEW QUESTION: 290

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Answer: C (LEAVE A REPLY)

The key issue here is the risk associated with non-compliance to document management policies, particularly in terms of legal exposure. If sales contracts are not stored systematically in the electronic document management database, it can lead to difficulties in retrieving these documents, especially in the case of litigation. This can pose significant legal risks because the organization might struggle to prove the agreed pricing terms and conditions, which could potentially result in financial losses or legal penalties. The consequence highlighted in option C directly addresses this critical risk. References:

- * "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)
- * "Document Management in Internal Auditing: Best Practices" (The Institute of Internal Auditors)

NEW QUESTION: 291

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Answer: C (LEAVE A REPLY)

The CAE should discuss the concerns with the finance manager and work together to agree on the engagement objectives. This collaborative approach ensures that the engagement objectives are aligned with the finance manager 's needs and expectations, and it allows the CAE to provide relevant and tailored assistance regarding the new management system for managing receivables.

IIA Standards: 2010 - Planning
IIA Practice Guide: Consulting Services

NEW QUESTION: 292

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Answer: D (LEAVE A REPLY)

According to the IIA guidance, when determining the need to follow-up on recommendations, the internal audit activity should consider factors such as the degree of effort and cost needed to correct the reported condition, the complexity of the corrective action, and the impact that may result should the corrective action fail. These factors are critical in assessing the importance and urgency of follow-up. However, the amount of resources required to conduct the follow-up activities should not be a primary consideration, as the focus should be on the significance of the issues and the potential risks associated with them. References: IIA Standard 2500 - Monitoring Progress, IIA Practice Advisory 2500.A1-1

NEW QUESTION: 293

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Answer: D (LEAVE A REPLY)

In a mature control environment with limited internal audit resources, internal auditors should focus their testing on preventive key controls. Preventive controls are designed to stop errors or irregularities before they occur, making them crucial for maintaining control effectiveness. Key controls are the most important controls in mitigating risks to an acceptable level. By focusing on these, internal auditors can ensure that the most critical risks are managed effectively despite limited resources. References:

- * The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 2320 - Analysis and Evaluation.
- * The IIA's Practice Guide on Assessing the Adequacy of Control Processes.

NEW QUESTION: 294

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Answer: (SHOW ANSWER)

According to IIA guidance, an internal audit activity that provides overall assurance on governance, risk, and control, advises and influences senior management, and leverages the organization's management of risk is best described as being in the "Managed" stage of internal audit maturity. This stage indicates a well- established internal audit function that is integrated into the organization's governance framework and plays a proactive role in risk management and strategic decision-making. References:

- * The IIA's Maturity Model for the Internal Audit Activity.
- * The IIA's Practice Guide on Internal Audit's Role in Governance, Risk, and Control.

NEW QUESTION: 295

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Answer: C (LEAVE A REPLY)

NEW QUESTION: 296

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Answer: D (LEAVE A REPLY)

When selecting an external service provider, the CAE must ensure that the provider possesses the necessary knowledge, skills, and competencies relevant to the specific type of work being reviewed. This is best demonstrated by the provider's experience in the relevant field (Option D). The other options, such as financial interest (Option A), prior relationships (Option B), and compensation (Option C), are considerations for assessing potential conflicts of interest or independence but are not primary criteria for evaluating technical competency.

IIA Standard 1210: Proficiency.

IIA Practice Guide on External Service Provider Arrangements.

NEW QUESTION: 297

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Answer: B (LEAVE A REPLY)

To efficiently gather input from a large, geographically dispersed group, a structured survey with scaled responses (B) is most effective. This allows for easy comparison and aggregation of results. Options A and C are less efficient due to open-ended responses, while D is too narrow.

NEW QUESTION: 298

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Answer: C (LEAVE A REPLY)

Internal auditors can rely on the work of other assurance providers, including internal compliance teams, to expand their audit coverage efficiently. This practice is based on the principle of leveraging existing assurance functions within the organization to avoid duplication of efforts and to use resources more effectively. By relying on the work performed by compliance teams, internal auditors can ensure comprehensive coverage without necessarily increasing the direct audit hours. However, it is crucial that the internal auditors evaluate the competence and objectivity of the compliance teams and ensure that their work meets the required standards before relying on it.

The Institute of Internal Auditors (IIA) Standard 2050: Coordination and Reliance IIA Practice Advisory 2050-2: Relying on the Work of Other Assurance Providers

NEW QUESTION: 299

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Answer: A (LEAVE A REPLY)

When developing the scope of an audit engagement, the internal auditor typically considers factors that directly impact the audit's objectives, risks, and execution. This includes the potential impact of key risks (Option B), the expected outcomes and deliverables (Option C), and the operational and geographic boundaries (Option D). While the need and availability of automated support (Option A) may be a practical consideration for how the audit is conducted, it is not fundamental to defining the scope of the audit engagement itself. The scope is primarily concerned with what is to be audited and why, rather than how the audit will be performed.

IIA Standard 2200: Engagement Planning.
IIA Practice Guide on Audit Engagement Planning.

NEW QUESTION: 300

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Comprehensive and Detailed Explanation:

An Integrated Test Facility (ITF) creates fictitious test data within a live system without disrupting actual operations. This allows the auditor to test the processing logic of applications under real conditions, ensuring transactions are processed consistently and correctly.

* Utility software (A) supports system operations but does not test logic.

* Parallel simulation (C) reprocesses transactions in an auditor-controlled system, but this does not test logic in the live environment.

* Generalized audit software (D) analyzes data but does not simulate processing logic.

Therefore, the most effective method to test application logic in real time is Integrated Test Facility (B), as it directly evaluates processing accuracy within the operational system.

NEW QUESTION: 303

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Answer: ([SHOW ANSWER](#))

Given the urgency and the lack of internal expertise in forensic investigation, the most effective and immediate solution is to outsource the investigation to independent professional consultants. This approach ensures that the investigation is conducted by individuals with the necessary skills and experience, thereby maintaining the integrity and quality of the investigation. Training internal staff or recruiting new auditors would take time and may not address the immediate need, while declining the engagement would not fulfill the audit committee's request. References:

- * "Internal Auditing: Assurance & Advisory Services" (The Institute of Internal Auditors)
- * "Forensic Accounting and Fraud Investigation for Non-Experts" (Howard Silverstone and Michael Sheetz)

NEW QUESTION: 304

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Answer: ([SHOW ANSWER](#))

Residual risk is the risk that remains after management has taken steps to mitigate or control the inherent risks. The chief audit executive (CAE) performs residual risk assessment to determine the effectiveness of management's actions and whether the remaining risk is acceptable.

* IIA Standard 2120 - Risk Management:

* The standard emphasizes that the CAE should evaluate the residual risks faced by the organization. This involves assessing whether management's risk responses are adequate and whether any unmitigated risks (residual risks) remain within the organization's risk tolerance.

* Cost-Benefit Analysis:

* Conducting a cost-benefit analysis of management's decision not to implement a recommendation directly relates to assessing residual risk. This analysis helps determine whether the residual risk is acceptable compared to the cost of implementing the recommendation.

* IIA Practice Guide on Assessing Residual Risk:

* This guide outlines that assessing residual risk involves evaluating the impact of management's controls and the risks that remain. A cost-benefit analysis is a method to quantify the impact of not addressing a recommendation, thereby evaluating the residual risk.

* Option B (Inquiry of corrective action to be completed): This is more about monitoring follow-up actions rather than assessing residual risk.

* Option C (Reporting status of every observation): While important, this is related to tracking audit issues, not specifically assessing residual risk.

* Option D (Soliciting management's feedback): While valuable for engagement quality, this does not directly relate to residual risk assessment.

Detailed Explanation: Why Not Other Options? Conclusion: Option A is correct as it reflects the CAE's role in assessing residual risk through cost-benefit analysis, in line with IIA standards.

NEW QUESTION: 305

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Answer: B (LEAVE A REPLY)

Comprehensive and Detailed Explanation:

Even though this is an advisory engagement, internal auditors must still evaluate significant control gaps discovered during the engagement (Standard 2120 - Risk Management). Since a key procurement control is missing, the auditor should not ignore the risk (D). Expanding the advisory engagement scope (C) would be outside the engagement mandate unless approved. Deferring review to next year's plan (A) delays needed assurance. The most appropriate step is to perform a root cause analysis and test whether the approved workaround is effective (B). This ensures that risks are mitigated in the interim until a permanent control is implemented, providing management with actionable feedback.

NEW QUESTION: 306

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Answer: D (LEAVE A REPLY)

The most likely reason the chief risk officer (CRO) chose the workshop approach is that it allows workshop participants to learn while contributing ideas toward the objectives. Workshops facilitate an interactive and collaborative environment where participants can share their insights and experiences. This approach helps in generating innovative solutions and fosters a sense of ownership among participants. It also enables participants to gain a better understanding of the issues at hand and the potential improvements that can be made. References: IIA Practice Guide - Facilitation and Collaboration Techniques, COSO Framework on Risk Management

NEW QUESTION: 307

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- B. 1□ 2□
- C. 1, 2, 3
- D. 1, 2, 4

Answer: C (LEAVE A REPLY)

A draft internal audit report citing deficient conditions should be reviewed with relevant stakeholders to ensure accuracy, address concerns, and plan corrective actions. This includes the client manager and her superior (Option 1) to inform them of the findings and obtain their perspective. It should also be reviewed with anyone who may object to the report's validity (Option 2) to address potential disagreements or misunderstandings early in the process. Finally, it should include anyone required to take action (Option 3) so they are aware of their responsibilities and can begin planning remediation efforts. While it may be beneficial to review with those who receive the final report (Option 4), it is not essential for the draft stage. References:

* The IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2440 - Disseminating Results.

NEW QUESTION: 308

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Answer: C (LEAVE A REPLY)

The board manages several key processes to ensure adequate governance within an organization, one of which is the development, approval, and execution of the strategic plan. This process is critical because it defines the organization's direction, goals, and the actions required to achieve these goals.

- * Strategic Planning: The board plays a pivotal role in setting the organization's strategic direction, which includes establishing long-term goals and defining the means to achieve them.
- * Performance Measurement: While the board may establish and measure performance objectives for the internal audit activity, this is part of a broader governance framework.
- * Risk Management: The board also develops strategies to mitigate risks, ensuring that the organization can achieve its objectives effectively.

Thus, the most comprehensive governance-related process managed by the board involves strategic planning

NEW QUESTION: 309

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Answer: C (LEAVE A REPLY)

For a one-person audit function, the primary focus is on ensuring that there is a clear understanding of the audit policies and procedures without the need for extensive documentation. According to the IIA's guidance, a memorandum stating the policies and procedures would suffice for a one-person audit function, providing a concise yet comprehensive outline of the necessary protocols to follow. This approach ensures that the sole auditor has clear directives while avoiding the administrative burden of maintaining a more extensive manual that might be necessary for larger audit teams.

The Institute of Internal Auditors (IIA) - Practice Advisory 2040-1: Policies and Procedures

NEW QUESTION: 310

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Answer: (SHOW ANSWER)

Upon discovering a potential conflict of interest, the most appropriate action for the internal auditor is to inform the audit supervisor. This ensures that the issue is properly addressed and investigated according to the organization's policies and procedures. The audit supervisor can then decide on the appropriate course of action, including whether further investigation is warranted. References: = IIA Standard 2440 - Disseminating Results and IIA Standard 2600 - Resolution of Senior Management's Acceptance of Risks.

NEW QUESTION: 311

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Answer: (SHOW ANSWER)

The results show widespread violations of conflict-of-interest policies, which exposes the organization to significant fraud and abuse risks (Option A). While B, C, and D might be possible implications, they go beyond what the evidence directly supports. Auditors must avoid overstating conclusions and should stick to what the evidence demonstrates - in this case, exposure to major fraud and abuse risk.

NEW QUESTION: 312

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- B. 1 □ 4
- C. 2 □ 3
- D. 3 □ 4

Answer: C (LEAVE A REPLY)

In internal auditing, the engagement workpapers typically contain more detailed descriptions of observations than the preliminary observation document because workpapers serve as the primary evidence and record of the audit procedures and findings. Similarly, a preliminary observation document generally contains more detail than the final audit report, as it serves as an initial, comprehensive documentation of the findings before they are summarized for final reporting.

References:

- * The Institute of Internal Auditors (IIA) Standards
- * Internal Audit Documentation and Reporting Standards

NEW QUESTION: 313

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Answer: B (LEAVE A REPLY)

Non-assurance engagements, such as consulting activities, involve providing advisory services that add value to management without the auditor expressing a formal opinion or providing assurance on the effectiveness of controls or processes.

- * IIA Definition of Non-Assurance (Consulting) Services:
- * Non-assurance services, as defined by the IIA, are advisory and related client service activities.

These activities are intended to provide advice and insight into specific issues, such as potential risks in new initiatives, without the internal audit function expressing an assurance opinion.

* Consulting Engagements:

* In a consulting engagement, the internal audit activity provides information and recommendations to management, allowing them to make informed decisions. In this case, informing management about potential risks of moving the data warehouse to a cloud server is an advisory role, typical of a non-assurance engagement.

* IIA Standard 2120 - Risk Management:

* While this standard relates to risk management assurance, in a consulting role, the internal audit activity would inform management of risks, allowing them to manage these risks proactively.

* Option A (Assessing effects of changes in maintenance strategy): This is more aligned with an assurance engagement where the auditor evaluates the impact of changes.

* Option C (Ascertaining data center security compliance): This is an assurance activity focused on compliance.

* Option D (Ensuring equipment downtime risks are managed): This implies an assurance role, as it involves verifying compliance with internal policy.

Detailed Explanation: Why Not Other Options? Conclusion: Option B is correct as it reflects a typical non-assurance engagement where the internal audit function provides advisory services on risk without providing formal assurance.

NEW QUESTION: 314

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

A material impact on the accuracy of the prior year's financial statements due to the inaccurate operation of controls is a significant issue that would likely prompt special notification from the chief audit executive (CAE) to senior management. This is because such an issue can have substantial implications for the organization's financial reporting, stakeholder trust, and compliance with regulatory requirements. Immediate notification ensures that senior management can take timely corrective action to address and remediate the issue.

References:

* The Institute of Internal Auditors (IIA) Standards

* Internal Audit Guidelines on Material Misstatements and Communication

NEW QUESTION: 315

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