

IIA-CIA-PART2^{Q&As}

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

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QUESTION 1

An audit identified a number of weaknesses in the configuration of a critical client/server system. Although some of the weaknesses were corrected prior to the issuance of the audit report, correction of the rest will require between six and 18 months for completion. Consequently, management has developed a detailed action plan, with anticipated completion dates, for addressing the weaknesses. Which of the following is the most appropriate course of action for the chief audit executive to take?

- A. Assess the adequacy of the action plan and monitor key dates and deliverables.
- B. Schedule a follow-up audit engagement to assess the status of corrective action.
- C. Reassign information systems auditors to assist the information technology department in correcting the weaknesses.
- D. Evaluate statistics related to unplanned system outages, unauthorized access attempts, and denials of service to assess the effectiveness of corrections.

Correct Answer: A

QUESTION 2

Due to price risk from the foreign currency purchase of aviation fuel, an airliner has purchased forward contracts to hedge against fluctuations in the exchange rate. When recalculating the exchange losses from individual purchases of jet fuel, which of the following details does the internal auditor need to validate?

- 1.
The hedge documentation designating the hedge.
 - 2.
The spot exchange rate on the transaction date.
 - 3.
The terms of the forward contract.
 - 4.
The amount of fuel purchased.
- A. 1 and 2
 - B. 1 and 4
 - C. 2 and 3
 - D. 3 and 4

Correct Answer: C

QUESTION 3

An auditor-in-charge is preparing her audit team for a consulting engagement at one of the organization's foreign subsidiaries. According to the Standards, which of the following would not be a necessary step prior to beginning the engagement?

- A. Verify that none of the audit team worked for the foreign subsidiary within the last year to ensure independence.
- B. Agree, in writing, with the subsidiary's senior management regarding the scope of the engagement.
- C. Communicate a time frame as well as a contingency plan in the event the engagement may take longer than expected.
- D. Communicate what logistical support will be provided by the subsidiary for the duration of the engagement.

Correct Answer: A

QUESTION 4

According to the International Professional Practices Framework, the internal audit activity's decision to defer follow-up of recommendations and management's corrective actions until the next scheduled engagement for the area is justified when:

- A. The reported findings or recommendations are significant enough to require immediate action by management.
- B. The action taken by management to address the recommendation is sufficient when weighed against the importance of the finding.
- C. Management has adequately understood and appropriately accepted the risk of not taking action to implement the recommendation.
- D. The significance of the finding or recommendation will allow auditors to perform monitoring by receiving periodic updates from management on corrective actions taken.

Correct Answer: B

QUESTION 5

An internal auditor is conducting an initial risk assessment of an audit area and wants to assess management's compliance with privacy laws for safeguarding customer information stored on the organization's servers. Which course of action is appropriate for this phase of the engagement?

- A. Solicit the services of a specialist information systems auditor.
- B. Obtain the most current approved copies of the organization's privacy policy.
- C. Consult with legal counsel about new privacy laws to establish appropriate criteria.
- D. Consider the detection risk of noncompliance with the laws.

Correct Answer: A

QUESTION 6

An organization's finance manager plans to implement a state-of-the-art management system to better manage the organization's receivables. The finance manager consulted the chief audit executive (CAE) and asked for her assistance in determining whether the organization is able to accommodate this system. How would the CAE proceed to determine the objectives of this engagement?

- A. Ask the CEO to determine the scope and objectives of the engagement.
- B. Request that the board disclose its concerns over governance for inclusion in the engagement.
- C. Discuss the concerns with the finance manager and work together to agree on the engagement objectives.
- D. Review previous audit reports from the area and develop engagement objectives to address the area's key risks and controls.

Correct Answer: B

QUESTION 7

Which of the following would provide the best audit evidence regarding the effectiveness of an applied research department?

- A. Develop a cost-per-product analysis for products developed over the past five years.
- B. Develop a report on revenue generated by or cost savings directly attributable to newly developed products.
- C. Compare research as a percentage of revenue between this company and all major competitors in the same industry.
- D. Compare the number of this year's new product developments to the number of new product developments for the past five years.

Correct Answer: B

QUESTION 8

According to IIA guidance, the chief audit executive is directly responsible for which of the following?

- A. Maintaining a quality assurance program, even in the absence of management support.
- B. Periodically reviewing and approving the internal audit charter.
- C. Providing opportunities for all staff auditors to satisfy their professional development requirements.
- D. Establishing the objectives, scope, and plan for each engagement.

Correct Answer: D

QUESTION 9

Which of the following is a red flag associated with improper asset valuation?

- A. Unusual increase in gross margin.
- B. Unusual decrease in the number of days' purchases in inventory.
- C. Recurring positive cash flows from operations.
- D. Allowance for bad debts that is increasing in percentage terms.

Correct Answer: A

QUESTION 10

Management requested the chief audit executive (CAE) to include an audit of the organization's health and safety program in next year's annual audit plan. However, the internal audit department has no expertise in this area. Which of the following would be the most appropriate action by the CAE?

- A. With management's agreement, amend the scope of the audit to ensure that areas examined do not require specialized knowledge and expertise.
- B. Meet with management to explain that the audit cannot be undertaken and discuss alternative strategies that can be implemented until internal audit can develop its capability in the area.
- C. Accept the request provided management has conducted a thorough risk assessment prior to the engagement to help guide the audit.
- D. Advise management that compliance audits of this type should only be conducted by the corresponding regulatory agency to ensure independence.

Correct Answer: B

QUESTION 11

What would be used to determine the collectability of accounts receivable balances?

- A. The file of related shipping documents.
- B. Negative accounts receivable confirmations.
- C. Positive accounts receivable confirmations.
- D. An aged accounts receivable listing.

Correct Answer: D

QUESTION 12

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

- I. The controller has assumed responsibility for approving all payments to certain vendors.

II. The controller has continuously delayed installation of a new accounts payable system, despite a corporate directive to implement it.

III. Sales commissions are not consistent with the organization's increased levels of sales.

IV.

Payments to certain vendors are supported by copies of receiving memos, rather than originals.

A.

I and II only

B.

II and III only

C.

I, II, and IV only

D.

I, III, and IV only

Correct Answer: C

QUESTION 13

Management has asked the internal audit activity to perform an operational audit of a division that recently reported an increase in expenditures in addition to a decrease in profits. However, existing internal audit resources are currently engaged in a legal compliance audit. Which factor would be considered least important in deciding whether resources should be removed from the legal compliance audit to the operational audit?

A. The increase in expenditures at the division over the past year.

B. The probability that the legal compliance audit will detect fraud.

C. The results of the external auditor's most recent financial audit.

D. The potential for regulatory fines associated with the legal compliance audit.

Correct Answer: C

QUESTION 14

The chief audit executive (CAE) is adding a new audit position to the team. According to the International Professional Practices Framework, which of the following candidates would the CAE be least likely to accept for the position?

A. The candidate is applying for an IT audit position, while originally coming from an IT background, but has only experiences of financial and compliance audits in the previous position.

B. The candidate is knowledgeable about potential indicators of fraud including typical risks, but has only participated as

a staff auditor in one investigative fraud audit.

C. The candidate meets the minimum educational requirements established by the chief audit executive, but has less formal education than any of the other candidates being considered.

D. The candidate provides examples of previous reports demonstrating excellent writing skills, but lacks ability to clearly communicate ideas and conclusions in a meeting.

Correct Answer: D

QUESTION 15

The chief audit executive (CAE) should determine whether the internal audit activity has confirmed the status of all of management's corrective actions. Doing so would help the CAE assess which of the following?

A. Disclosure risk.

B. Residual risk.

C. Compliance risk.

D. Inherent risk.

Correct Answer: C

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