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NEW QUESTION: 1

While reviewing the workpapers and draft report from an audit engagement, the chief audit executive (CAE) found that an Important compensating control had not been considered adequately by the audit team when it reported a major control weakness. Therefore, the CAE returned the documentation to the auditor in charge for correction. Based on this information, which of the following sections of the workpapers most likely would require changes?

1. Effect of the control weakness.
2. Cause of the control weakness.
3. Conclusion on the control weakness.
4. Recommendation for the control weakness.

A. 1, 2, and 3.

B. 1, 2, and 4.

C. 1, 3, and 4.

D. 2, 3, and 4.

Answer: (SHOW ANSWER)

Introduction:

When a compensating control is not considered, it can affect various aspects of the audit findings and conclusions.

Impact on Workpapers:

Effect of the Control Weakness: The impact of the control weakness needs to be reassessed considering the compensating control.

Conclusion on the Control Weakness: The overall conclusion about the severity of the control weakness may change.

Recommendation for the Control Weakness: Recommendations may need to be adjusted based on the new assessment.

NEW QUESTION: 2

According to IIA guidance, which of the following objectives was most likely formulated for a non-assurance engagement?

- A. The internal audit activity will assess the effects of changes in maintenance strategy on the availability of production equipment
- B. The internal audit activity will inform management on the possible risks of moving the data warehouse to a cloud server maintained by a third party.
- C. The internal audit activity will ascertain whether the data center security arrangements are compliant with agreed terms
- D. The internal audit activity will ensure equipment downtime risks have been managed in accordance with the internal policy.

Answer: ([SHOW ANSWER](#))

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.

NEW QUESTION: 3

Which of the following could increase risks to the organization's control environment?

- A. Strong board of directors oversight.
- B. Incentive-based compensation structures
- C. Lower than average employee turnover.
- D. Implementation of a fraud hotline

Answer: ([SHOW ANSWER](#))

Incentive-based compensation can increase the risk of unethical behavior or fraudulent activities as employees might be tempted to manipulate results to achieve their performance targets. This could undermine the control environment and lead to significant risks if not managed properly.

NEW QUESTION: 4

When reviewing workpapers, engagement supervisors may ask for additional evidence or clarification via review notes. According to IIA guidance, which of the following statements is true regarding the engagement supervisors review notes?

- A. The review notes may be cleared from the final documentation once the engagement supervisors concerns have been addressed
- B. Management of the area under review must address the engagement supervisors review notes before the audit report can be finalized.
- C. The chief audit executive must initial or sign the engagement supervisors review notes to provide evidence of appropriate engagement supervision.

D. Review notes provide documented proof that the engagement is supervised properly and must be retained for the quality assurance and improvement program

Answer: ([SHOW ANSWER](#))

Introduction:

Review notes are comments or questions posed by engagement supervisors during the review of workpapers to ensure audit quality and completeness.

IIA Guidance on Review Notes:

According to the IIA, review notes serve as a tool for engagement supervisors to seek additional evidence or clarification.

NEW QUESTION: 5

Who is responsible for ensuring internal auditors continuing professional development*

- A.** Individual internal auditors
- B.** Chief audit executive.
- C.** The board
- D.** Engagement supervisors

Answer: ([SHOW ANSWER](#))

Introduction:

Continuing Professional Development (CPD) is essential for internal auditors to maintain and enhance their skills and knowledge.

Responsibility for CPD:

While the organization and CAE provide support and resources, the primary responsibility for ensuring CPD rests with the individual internal auditors.

NEW QUESTION: 6

According to IIA guidance, which of the following statements is true regarding audit workpapers?

- A.** Review notes on audit workpapers must be retained to provide a record of questions raised by the reviewer.
- B.** Audit workpaper documentation policies are reviewed and approved by the audit committee.
- C.** Management of the department being audited should review the prepared workpapers for accuracy.
- D.** Audit workpaper preparation contributes to the professional development of the internal audit staff.

Answer: ([SHOW ANSWER](#))

Audit workpapers are essential documents that provide evidence of the audit work performed and the conclusions reached.

NEW QUESTION: 7

Which of the following must be in existence as a precondition to developing an effective system of internal controls?

- A.** A monitoring process

- B. A risk assessment process.
- C. A strategic objective-setting process.
- D. An information and communication 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.

NEW QUESTION: 8

Which of the following would most likely be found in an organization that uses a decentralized organizational structure?

- A. There is a higher reliance on organizational culture
- B. There are clear expectations set for employees.
- C. There are electronic monitoring techniques employed
- D. There is a defined code for employee behavior

Answer: ([SHOW ANSWER](#))

Decentralized Structure: In a decentralized organizational structure, decision-making authority is distributed throughout various levels of the organization. This often leads to a greater reliance on organizational culture to guide employees' actions and ensure alignment with the organization's goals and values.

NEW QUESTION: 9

According to the IIA Code of Ethics, which of the following is required with regard to communicating results?

- A. The internal auditor should present material information to appropriate personnel within the organization without revealing confidential matters that could be detrimental to the organization
- B. The internal auditor should disclose all material information obtained by the date of the final engagement communication.
- C. The internal auditor should obtain all material information within the established time and budget parameters.
- D. The internal auditor should reveal material facts that could potentially distort the reporting of activities under review

Answer: ([SHOW ANSWER](#))

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.

NEW QUESTION: 10

A bicycle manufacturer incurs a combination of fixed and variable costs with the production of each bicycle. Which of the following statements is true regarding these costs?

- A.** if the number of bicycles produced is increased by 15 percent, the variable cost per unit will increase proportionally
- B.** The fixed cost per unit will vary directly based on the number of bicycles produced during the production cycle.
- C.** The total variable cost will vary proportionally and inversely with the number of bicycles produced during a production run.
- D.** if the number of bicycles produced is increased by 30 percent, the fixed cost per unit will decline.

Answer: ([SHOW ANSWER](#))

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.

NEW QUESTION: 11

A multinational organization has asked the internal audit activity to assist in setting up the organization's risk management system. The chief audit executive (CAE) agrees to take on the engagement as a consultant. Which of the following tasks is appropriate for the CAE to undertake?

- A.** Coordinate and facilitate risk workshops for management to attend

- B. Establish the degree of risk appetite for management to accept.
- C. Set risk Indicators and mitigation plans for management to Implement.
- D. Determine the number of significant risks for management to report to the board

Answer: ([SHOW ANSWER](#))

Role of CAE as Consultant: The chief audit executive (CAE) can act as a consultant to help management establish a risk management system. Their role should be facilitative rather than directive, ensuring that management owns the risk management process.

NEW QUESTION: 12

Which of the following situations represents the GREATEST threat to auditor independence?

- A. The auditor previously worked in the area being audited three years ago.
- B. The auditor owns stock in the organization being audited.
- C. The auditor attended a training course sponsored by management.
- D. The auditor consults industry best practices during planning.

Answer: ([SHOW ANSWER](#))

A direct financial interest creates a significant impairment to independence and objectivity. The other situations may require consideration but generally do not constitute the same level of impairment.

NEW QUESTION: 13

According to ISO 31000, which of the following statements is correct?

- A. The board is responsible for setting the organizational attitude through tone at the top.
- B. The internal audit activity will provide assurance over operating effectiveness but not over the design of risk management activities
- C. The internal audit activity can give objective assurance on any part of the risk management framework for which it is responsible.
- D. The framework is designed to be effective for organizations no matter how small.

Answer: ([SHOW ANSWER](#))

According to ISO 31000, the risk management framework is scalable and applicable to organizations of all sizes, including small entities. The framework's principles are designed to be flexible and adaptable, ensuring they can be effectively implemented regardless of the organization's size.

Scalability: The principles and guidelines of ISO 31000 can be tailored to fit the specific context, resources, and complexity of any organization, making it a universal standard.

Flexibility: The framework supports organizations in integrating risk management practices into their operations at a level that suits their size and complexity.

Effectiveness: Regardless of the organization's size, the framework aims to enhance risk management practices and support better decision-making.

NEW QUESTION: 14

Which of the following actions should the internal audit activity take during an audit engagement when examining the effectiveness of risk management processes?

- A. Evaluate how the organization manages fraud risk.
- B. Establish procedures for improving risk management processes.
- C. Ensure risk responses are aligned with industry standards
- D. Verify that organizational objectives are aligned with each departments objectives.

Answer: (SHOW ANSWER)

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.

NEW QUESTION: 15

Which of the following steps should an internal auditor complete when conducting a review of an electronic data interchange application provided by a third-party service?

1. Ensure encryption keys meet ISO standards.
2. Determine whether an independent review of the service provider's operation has been conducted.
3. Verify that the service provider's contracts include necessary clauses.
4. Verify that only public-switched data networks are used by the service provider

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

Answer: (SHOW ANSWER)

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: 16

The chief audit executive (CAE) has assigned an internal auditor to an upcoming engagement. Which of the following requirements would most likely indicate that the Internal auditor was assigned to an assurance engagement?

- A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.
- B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.
- C. The assigned internal auditor must not assume management responsibilities while performing the engagement.
- D. The assigned internal auditor must maintain objectivity while performing the engagement

Answer: (SHOW ANSWER)

Introduction:

Assurance engagements require internal auditors to maintain objectivity and avoid conflicts of interest.

Role of Internal Auditors in Assurance Engagements:

They must remain independent and not take on roles that could compromise their impartiality.

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NEW QUESTION: 17

According to IIA guidance, which of the following describes the primary reason to implement environmental and social safeguards within an organization?

- A. To enable Triple Bottom Line reporting capability.
- B. To facilitate the conduct of risk assessment
- C. To achieve and maintain sustainable development.
- D. To fulfill regulatory and compliance requirements.

Answer: ([SHOW ANSWER](#))

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: 18

Which of the following would provide the BEST evidence that a disaster recovery plan is effective?

- A. The plan is approved annually.
- B. Employees acknowledge the policy.
- C. Recovery testing achieves defined objectives.
- D. The plan is stored offsite.

Answer: ([SHOW ANSWER](#))

Actual testing demonstrates whether recovery capabilities work in practice.

NEW QUESTION: 19

According to Maslow's hierarchy of needs theory, which of the following best describes a strategy where a manager offers an assignment to a subordinate specifically to support his professional growth and future advancement^

- A. Esteem by colleagues.
- B. Self-fulfillment.
- C. Sense of belonging in the organization
- D. Job security.

Answer: ([SHOW ANSWER](#))

According to Maslow's hierarchy of needs theory, self-fulfillment or self-actualization represents the highest level of human motivation, where an individual seeks to achieve personal growth, professional development, and realization of their potential. Offering an assignment to a subordinate to support their professional growth and future advancement aligns with this concept, as it helps the individual achieve a sense of self-fulfillment.

NEW QUESTION: 20

An internal auditor is performing testing to gather evidence regarding an organization's inventory account balance and is mindful of the possibility that the sample used might support the conclusion that the recorded account balance is not materially misstated when, in fact, it is The auditor's concern best describes which of the following risks?

- A. Incorrect rejection risk.

- B. Incorrect acceptance risk.
- C. Tolerable misstatement risk
- D. Anticipated misstatement risk

Answer: ([SHOW ANSWER](#))

Introduction:

When performing audit testing, internal auditors must consider the risk that their sample may lead to incorrect conclusions about the accuracy of account balances.

Understanding Incorrect Acceptance Risk:

This risk refers to the possibility that the sample used might support the conclusion that the recorded account balance is not materially misstated when, in fact, it is. This is a type of sampling risk that auditors need to mitigate through proper sampling techniques and sufficient sample sizes.

NEW QUESTION: 21

Which of the following is essential for ensuring that the internal audit activity's findings and recommendations receive adequate consideration?

- A. Reporting results of audits with recommendations to management.
- B. Providing formal follow-up procedures to ensure that management complies with an action plan or accepted risk of not taking action.
- C. Reporting quarterly to management that the audit plan is focused on higher exposures of risk.
- D. Discussing audit findings with independent auditors.

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

Ensuring Compliance: To ensure that audit findings and recommendations are addressed, formal follow-up procedures are necessary.

Follow-up Procedures: These procedures involve tracking the implementation of recommendations and verifying that management has taken appropriate action or has accepted the risks of not acting.

Reporting to Management: Regular reporting on the status of follow-up actions helps maintain accountability and transparency.

Standard Requirement: This aligns with the IIA's Standard 2500 ?Monitoring Progress, which requires internal audit activities to establish and maintain a system to monitor the disposition of results communicated to management.

NEW QUESTION: 22

An auditor finds no evidence supporting management's assertion that a key control operates daily.

The auditor should:

- A. Accept management's explanation.
- B. Conclude the control is operating effectively.
- C. Consider the control ineffective until evidence is obtained.
- D. Remove the control from the audit scope.

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

Audit conclusions must be supported by sufficient and appropriate evidence. Unsupported assertions are not evidence.

NEW QUESTION: 23

Internal auditors map a process by documenting the steps in the process, which provides a framework for understanding Which of the following is a reason to use narrative memoranda?

- A. To create a detailed risk assessment
- B. To identify individuals who perform key roles
- C. To explain a simple process.
- D. To document which outputs support other activities.

Answer: ([SHOW ANSWER](#))

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.

NEW QUESTION: 24

Which of the following activities demonstrates an example of the chief audit executive performing residual risk assessment?

- A. Cost-benefit analysis of management not implementing a recommendation to address an observation.
- B. Inquiry of corrective action to be completed within a certain period
- C. Reporting the status of every observation for every engagement in a detailed manner.
- D. Soliciting management's feedback after completion of the audit engagement.

Answer: ([SHOW ANSWER](#))

Performing a cost-benefit analysis when management decides not to implement a recommendation is a prime example of residual risk assessment. This involves evaluating the potential impacts and remaining risks associated with the decision, thereby determining the residual risk that the organization will continue to face.

Cost-Benefit Analysis: This helps in understanding the financial implications and benefits that would have been realized had the recommendation been implemented versus the risks of not implementing it.

Risk Assessment: By assessing the residual risk, the CAE can provide a clearer picture of the ongoing risks that the organization needs to manage.

Management Decision Impact: This analysis assists in making informed decisions and understanding the trade-offs involved in addressing audit observations.

NEW QUESTION: 25

An internal auditor concludes that a control operates effectively only 60% of the time.

The auditor should conclude that:

- A. The control is ineffective.
- B. The control is properly designed.
- C. The control eliminates risk.
- D. No deficiency exists.

Answer: ([SHOW ANSWER](#))

Controls must operate consistently to be effective. Significant operating failures indicate ineffective control performance.

NEW QUESTION: 26

An auditor discovers that all production database administrators have unrestricted access to modify financial transaction records.

Which control weakness is MOST significant?

- A. Lack of documentation.
- B. Inadequate business continuity planning.
- C. Excessive privileged access.
- D. Insufficient user training.

Answer: ([SHOW ANSWER](#))

Unrestricted privileged access to financial data creates a substantial risk of unauthorized modification, fraud, and data integrity compromise.

NEW QUESTION: 27

Which of the following is most likely the subject of a periodic report from the chief audit executive to the board?

- A. A complete, accurate, and comprehensive account of engagement observations and recommendations.
- B. Oversight of the coordination between the internal audit activity and independent outside auditors
- C. The internal audit activity's purpose, authority, responsibility, and performance relative to plan.
- D. Management's assertions regarding the system of internal controls.

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

Introduction:

The chief audit executive (CAE) has a crucial role in reporting to the board on various aspects of the internal audit activity (IAA).

Importance of Reporting:

Periodic reports from the CAE to the board are essential for ensuring transparency and providing oversight on the IAA's performance and alignment with organizational objectives.

NEW QUESTION: 28

Which of the following best demonstrates internal auditors performing their work with proficiency?

- A. internal auditors meet with operational management at each phase of the audit process.
- B. Internal auditors adhere to The IIA's Code of Ethics.
- C. Internal auditors work collaboratively with their engagement team.
- D. Internal auditors complete a program of continuing professional development.

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: 29

An internal auditor believes that the internal audit activity's independence is impaired Which of the following actions should the internal auditor take first?

- A. Report the impairment to senior management
- B. Discuss the impairment with the audit manager.
- C. Ascertain the best approach to disclose the impairment.
- D. Decide on the extent of impact of the impairment

Answer: ([SHOW ANSWER](#))

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.

NEW QUESTION: 30

According to IIA guidance, which of the following is true regarding typical fraud schemes?

1. A diversion occurs when an employee has an undisclosed personal economic interest in a transaction that adversely affects the organization
2. Tax evasion is intentional reporting of false or misleading information on a tax return by an organization to reduce taxes owed.
3. Skimming involves stealing cash or assets from the organization and is normally concealed by adjusting the organization's records
4. Disbursement fraud occurs when a person causes the organization to issue a payment for fictitious goods or services

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

Answer: ([SHOW ANSWER](#))

Diversion typically involves redirecting resources or assets for personal use, not just having an undisclosed interest.

Tax evasion involves deliberate falsification of financial information to avoid tax liabilities.

Skimming is taking cash before it is recorded in the accounting system, usually difficult to detect.

Disbursement fraud involves creating fictitious invoices or vendors to divert funds.

NEW QUESTION: 31

Applying ISO 31000; which of the following is part of the external context for risk management?

- A. Risk treatment method based on risk evaluation.
- B. Organizational culture, objectives, and processes.
- C. The regulatory and competitive environment.
- D. The method of determining the risk level

Answer: ([SHOW ANSWER](#))

ISO 31000 Context: ISO 31000 provides guidelines on risk management, emphasizing the importance of understanding the external context.

External Context: This includes external factors such as regulatory and competitive environments that can impact the organization's risk profile.

Regulatory Environment: Understanding regulations helps the organization ensure compliance and avoid legal risks.

Competitive Environment: Analyzing the competitive environment allows the organization to anticipate market changes and manage competitive risks.

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NEW QUESTION: 32

Which of the following statements is true regarding internal auditors and other assurance providers?

- A. Assurance providers who report to management and/or are part of management cannot provide control self-assessments services

B. Internal auditors should always reperform and validate audit work completed by external assurance providers.

C. Internal auditors may rely on the work of internal compliance teams to expand their coverage of the organization without increasing direct audit hours.

D. Internal auditors can rely on the work of other assurance providers only if the other assurance providers report directly to the board

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

Collaboration with Compliance Teams: Internal auditors often collaborate with internal compliance teams to leverage their work. This allows auditors to gain insights and expand their audit coverage efficiently.

IIA Standards: According to the Institute of Internal Auditors (IIA), internal auditors can rely on the work of other assurance providers, including internal compliance teams, as long as the auditors assess the adequacy and competency of the compliance team's work.

Efficiency in Audit Coverage: By relying on internal compliance teams, internal auditors can ensure comprehensive coverage of the organization without significantly increasing direct audit hours, thus enhancing efficiency.

NEW QUESTION: 33

Which of the following provides the BEST indication of a mature cybersecurity governance program?

A. Antivirus software is installed.

B. Security incidents are reported to regulators.

C. Cybersecurity risks are integrated into enterprise risk management.

D. Password policies are documented.

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

Mature cybersecurity governance integrates cyber risk into broader organizational governance and risk management frameworks.

NEW QUESTION: 34

According to IIA guidance, which of the following activities are typically primary objectives of engagement supervision?

A. Enable training and development of staff, identify engagement objectives, and assign responsibilities to individual auditors.

B. Identify engagement objectives, assign responsibilities to individual auditors, and approve the engagement program.

C. Assign responsibilities to individual auditors, approve the engagement program, and enable training and development of staff.

D. Approve the engagement program, enable training and development of staff, and identify engagement objectives

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

Engagement Supervision Objectives:

Assign Responsibilities: Supervisors must clearly assign tasks and responsibilities to individual auditors to ensure clarity and accountability during the engagement.

Approve Engagement Program: The supervisor is responsible for reviewing and approving the engagement program, ensuring that it aligns with the engagement objectives and internal audit standards.

Training and Development: Supervision also involves mentoring and developing audit staff, providing guidance and feedback to enhance their skills and performance.

IIA Standards:

Engagement Supervision: Internal audit engagements must be properly supervised to ensure objectives are achieved, quality is maintained, and staff are developed.

Primary Objectives:

Clarity and Accountability: Assigning responsibilities ensures that each auditor knows their role and tasks.

Quality and Compliance: Approving the engagement program ensures that the audit plan is robust and compliant with standards.

Professional Development: Enabling training and development helps build a competent and skilled audit team.

NEW QUESTION: 35

An internal auditor observed that sales staff are able to modify or cancel an order in the system prior to shipping. She wonders whether they can also modify orders after shipping. Which of the following types of controls should she examine?

- A. Batch controls.
- B. Application controls
- C. General IT controls.
- D. Logical access controls

Answer: ([SHOW ANSWER](#))

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.

NEW QUESTION: 36

When taken by a chief audit executive, which of the following actions would be most likely to prevent division management from exaggerating sales reports?

1. Announcing a series of internal audit engagements focusing on compliance with corporate sales-reporting policies.
2. Asking the president and the board to issue a statement of corporate policy stressing the importance of accurate management reporting and the negative consequences of intentional misreporting
3. Setting up a hotline for employees to report fraudulent behavior

anonymously.

4. Assisting the controller in developing and monitoring a series of business process indicators, which are historically correlated with, but independent of, sales.

A. 1 and 2 only.

B. 2 and 3 only.

C. 2 and 4 only.

D. 3 and 4 only.

Answer: (SHOW ANSWER)

Corporate Policy Statement: Having the president and the board issue a statement stressing the importance of accurate management reporting and the negative consequences of intentional misreporting can help set a tone at the top. This reinforces the significance of ethical behavior and compliance with reporting policies across the organization.

Business Process Indicators: Assisting the controller in developing and monitoring business process indicators that are historically correlated with, but independent of, sales can provide an objective means to validate sales reports. This reduces the opportunity for management to exaggerate sales figures as these indicators can act as a control mechanism.

NEW QUESTION: 37

Which of the following activities is most likely to require a fraud specialist to supplement the knowledge and skills of the internal audit activity?

A. Planning an engagement of the area in which fraud is suspected.

B. Employing audit tests to detect fraud

C. Interrogating a suspected fraudster.

D. Completing a process review to improve controls to prevent fraud.

Answer: (SHOW ANSWER)

Specialized Knowledge: Interrogating a suspected fraudster requires specialized knowledge and skills that go beyond the typical expertise of internal auditors. This includes understanding interrogation techniques, legal implications, and psychological aspects.

Fraud Specialist: A fraud specialist is trained in conducting investigations, including interrogations, and can provide valuable insights and evidence in cases of suspected fraud.

IIA Standards: According to Standard 1210.A2, internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Collaborative Approach:

Fraud Investigations: Engaging a fraud specialist ensures that the investigation is conducted thoroughly and professionally, adhering to legal and ethical standards.

Support to Internal Audit: The fraud specialist can provide support and guidance to the internal audit activity, enhancing the overall effectiveness of the fraud investigation.

NEW QUESTION: 38

Which of the following methods is most closely associated to year over year trends?

- A. Horizontal analysts
- B. Vertical analysis.
- C. Common-size analysis.
- D. Ratio analysis.

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.

NEW QUESTION: 39

An accounts payable clerk has recently transferred into the internal audit activity and has been assigned to an engagement related to accounts payable processes for which he was previously responsible Which of the following is the best action for the new internal auditor to take?

- A. If it is an assurance engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value
- B. If it is a consulting engagement, decline the assignment and ask to be reassigned, because in a consulting engagement the auditor must not assess operations for areas in which they were previously responsible.
- C. if it is a consulting engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value
- D. If it is an assurance engagement, accept the assignment because the chief audit executive had knowledge of the internal auditor's previous role when this engagement was assigned.

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.

NEW QUESTION: 40

Which of the following internal audit activity staffing models has the disadvantage that auditors are always new and in training?

- A. Career model
- B. Center of competence model.
- C. Rotational model.
- D. Hybrid model

Answer: (SHOW ANSWER)

Understanding Staffing Models: Internal audit activity staffing models vary in structure and approach, each with its advantages and disadvantages. The rotational model involves assigning employees from various departments to the internal audit activity for a fixed period before they rotate back to their original or new roles within the organization.

Rotational Model Disadvantages:

Continuous Training: A key disadvantage of the rotational model is that auditors are often new and in training. This model means that there is a constant influx of new staff who may lack extensive audit experience, requiring continuous training and development efforts.

Consistency and Expertise: This can impact the consistency and depth of audit expertise within the internal audit activity, as the auditors are frequently changing.

NEW QUESTION: 41

While conducting an engagement in the procurement department, the internal auditor noticed that the department head's travel reports showed minor travel expenses, and there were no charges for hotels, meals, or transportation. However, the auditor knew that the department head frequently traveled worldwide to meet with suppliers and visit their production sites. Which of the following would be the most appropriate next step for the auditor?

- A. The auditor should make a note of the issue for follow-up when employee travel expenses are audited.
- B. The auditor should analyze trends and changes among the organization's suppliers over the past few years.
- C. The auditor should investigate whether there are any special arrangements regarding senior management travel.
- D. The auditor should analyze the list of destinations the department head visited to estimate typical costs

Answer: (SHOW ANSWER)

* 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.

NEW QUESTION: 42

Senior management asks internal audit to design and implement a new fraud monitoring process. Which response is MOST appropriate?

- A. Accept the assignment because fraud prevention is part of internal audit's role.
- B. Design the process but avoid implementation.
- C. Provide consulting advice while avoiding management responsibility.
- D. Refuse all involvement because fraud is outside internal audit's scope.

Answer: (SHOW ANSWER)

Internal audit may provide consulting services regarding fraud controls. However, ownership, design approval, and implementation remain management responsibilities. Assuming these responsibilities would impair objectivity.

NEW QUESTION: 43

Which of the following is an example of a properly supervised engagement?

- A. Auditors are asked to keep a daily record of their activity for review by the auditor in charge following the engagement.
- B. The senior internal auditor requires each auditor to review and initial colleagues' workpapers for completeness and format
- C. A new internal auditor is accompanied by an experienced auditor during a highly sensitive fraud investigation.
- D. The auditor in charge provides reasonable assurance that engagement objectives were met

Answer: (SHOW ANSWER)

Supervision in Internal Audit: Effective supervision ensures that the engagement is carried out according to plan, objectives are met, and quality standards are maintained. It involves guiding, mentoring, and reviewing the work of auditors throughout the engagement.

NEW QUESTION: 44

While auditing an organization's credit approval process, an internal auditor learns that the organization has made a large loan to another auditors relative. Which course of action should the auditor take?

- A. Proceed with the audit engagement, but do not include the relative's information.
- B. Have the chief audit executive and management determine whether the auditor should continue with the audit engagement.
- C. Disclose in the engagement final communication that the relative is a customer
- D. Immediately withdraw from the audit engagement

Answer: (SHOW ANSWER)

Identify the Conflict of Interest: The internal auditor learns about a large loan made to another auditor's relative, which represents a conflict of interest. Refer to Professional Standards:

According to the Institute of Internal Auditors' (IIA) standards, an internal auditor must maintain objectivity and avoid conflicts of interest (IIA Standard 1100 - Independence and Objectivity).

Escalate the Issue: The appropriate course of action is to escalate this matter to the chief audit executive (CAE) and management, as they are responsible for determining the impact of the conflict and the appropriate response.

Decision Making: The CAE and management will assess whether the conflict of interest could impair the auditor's objectivity and decide whether the auditor should be removed from the engagement or if additional oversight is needed.

Documentation: It is important to document the conflict and the decision-making process in the audit documentation for transparency and accountability.

NEW QUESTION: 45

Which of the following offers the best explanation of why the auditor in charge would assign a junior auditor to complete a complex part of the audit engagement?

- A.** The senior auditors are unavailable, as they are currently working on other portions of the engagement
- B.** The auditor in charge believes that the junior auditor should obtain a specific type of experience.
- C.** The audit engagement has a tight deadline and the work must be completed timely.
- D.** The auditor in charge is unable to identify audit staff with all of the required skills needed to complete the engagement

Answer: ([SHOW ANSWER](#))

Assigning a junior auditor to complete a complex part of an audit engagement can be a strategic decision aimed at providing the junior auditor with valuable experience. This exposure to complex tasks helps in their professional development, building their skills and knowledge for future responsibilities. Although tight deadlines or the unavailability of senior auditors might be factors, the primary reason is often to enhance the junior auditor's competence and career growth.

NEW QUESTION: 46

Which audit evidence would generally be considered MOST reliable?

- A.** Process narratives prepared by management.
- B.** Verbal representations from department managers.
- C.** Reports generated by a system with effective controls.
- D.** Information obtained from anonymous employees.

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

System-generated reports from well-controlled systems are generally more reliable than verbal statements or undocumented information.

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NEW QUESTION: 47

In which scenario might it be considered problematic for the chief audit executive (CAE) to provide assurance services over the payroll function?

- A. The CAE previously undertook a consulting assignment in that area to improve processes.
- B. A couple of years ago, the CAE performed accounting functions for the payroll department.
- C. Prior to becoming the CAE, the CAE was the payroll manager.
- D. The assurance review was initiated following issues identified during a consulting assignment requested by management.

Answer: ([SHOW ANSWER](#))

Introduction:

The independence and objectivity of the internal audit function are paramount, especially when the CAE has had prior involvement in the area under review.

NEW QUESTION: 48

Which of the following would be considered a violation of The IIA's mandatory guidance on independence?

- A. The chief audit executive (CAE) reports functionally to the board and administratively to the chief financial officer
- B. The board seeks senior managements recommendation before approving the annual salary adjustment of the CAE.
- C. The CAE confirms to the board, at least once every five years, the organizational independence of the internal audit act/vity.
- D. The CAE updates the internal audit charter and presents it to the board for approval periodically, not on a specific timeline

Answer: ([SHOW ANSWER](#))

Independence Requirement: The IIA's mandatory guidance emphasizes the importance of the CAE's independence to ensure unbiased internal audit activities.

Conflict of Interest: Seeking senior management's recommendation for the CAE's salary adjustment can create a conflict of interest and potentially compromise the CAE's independence.

Best Practices: To maintain independence, the CAE's compensation should be determined by the board without influence from senior management.

Standard Compliance: According to the IIA's Attribute Standard 1110 ?Organizational Independence, the CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

NEW QUESTION: 49

According to IIA guidance, which of the following corporate social responsibility (CSR) evaluation activities may be performed by the internal audit activity?

1. Consult on CSR program design and implementation
 2. Serve as an advisor on CSR governance and risk management.
 3. Review third parties for contractual compliance with CSR terms
 4. Identify and mitigate risks to help meet the CSR program objectives
- A. 1,2, and 3.
B. 1.2. and 4.
C. 1, 3, and 4.
D. 2. 3. and 4.

Answer: (SHOW ANSWER)

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.

NEW QUESTION: 50

A chief audit executive (CAE) following up on action plans from previously completed audits identifies that management has determined that certain action plans are no longer necessary. If the CAE disagrees with management's decision, which of the following is the most appropriate next step for the CAE to take?

- A. The CAE must discuss the matter with senior management
B. The CAE must discuss the matter with key shareholders.
C. The CAE must discuss the matter with legal counsel.
D. The CAE must discuss the matter with the board

Answer: (SHOW ANSWER)

Introduction:

The chief audit executive (CAE) must ensure that audit recommendations are appropriately addressed and that any disagreements with management's decisions are resolved effectively.

Escalation Process:

If the CAE disagrees with management's decision to not implement certain action plans, it is important to escalate the issue to the board to ensure that risks are properly managed and that there is accountability.

NEW QUESTION: 51

The audit plan requires a review of the testing procedures used in pre-production of a large information system prior to its live launch. If the chief audit executive (CAE) is uncertain that the current audit team has all the required knowledge to conduct the engagement, which of the following would be the most appropriate course of action for the CAE to take to preserve independence?

- A.** Contract with the software vendor to provide an appropriate resource
- B.** Ask for a knowledgeable resource from the IT department
- C.** Make use of an external service provider.
- D.** Request audit resources through the external auditor.

Answer: ([SHOW ANSWER](#))

If the chief audit executive (CAE) is uncertain that the current audit team has all the required knowledge to conduct the engagement, the most appropriate course of action is to use an external service provider. This helps preserve the independence and objectivity of the internal audit function.

Expertise: External service providers bring specialized knowledge and expertise that may not be available within the internal team.

Independence: Utilizing an external provider ensures that the audit maintains its independence and objectivity, avoiding any potential conflicts of interest.

Quality: Ensures that the audit engagement is conducted with the highest standards, leveraging the external provider's experience and skills.

NEW QUESTION: 52

Which action would MOST likely impair internal audit objectivity?

- A.** Providing advice regarding control design.
- B.** Reviewing a process before implementation.
- C.** Approving management's risk responses.
- D.** Facilitating risk workshops.

Answer: ([SHOW ANSWER](#))

Approving risk responses is a management responsibility. Internal audit may advise but should not make management decisions.

NEW QUESTION: 53

An organization has a mature control environment but limited internal audit resources. Given this scenario, on which of the following should the internal auditors focus their testing?

- A. Detective compensating controls
- B. Preventive compensating controls.
- C. Detective key controls.
- D. Preventive key controls

Answer: ([SHOW ANSWER](#))

When internal audit resources are limited, it is crucial to focus on the most critical aspects of the control environment. Preventive key controls are designed to prevent errors or irregularities from occurring, which are essential for maintaining a strong control environment. Given the mature control environment of the organization, prioritizing preventive key controls ensures that potential issues are addressed before they materialize, providing a proactive approach to risk management.

NEW QUESTION: 54

A newly appointed chief audit executive (CAE) of a small organization is developing a resource management plan. Which of the following approaches would be most beneficial to help the CAE obtain details of the internal audit activity's collective knowledge, skills, and other competencies?

- A. Review or establish a documented skills assessment of the internal audit staff and gather information from post-audit surveys.
- B. Obtain from the human resources department the job descriptions and position requirements for all internal audit staff.
- C. Conduct an objective written test of the internal audit staff to assess their knowledge and skills related to core internal audit competencies.
- D. Request the internal audit staff to submit a document that summarizes their most recent performance appraisals and post audit reviews.

Answer: ([SHOW ANSWER](#))

Conducting a documented skills assessment helps in identifying the existing competencies and any gaps within the internal audit team.

Post-audit surveys can provide feedback on the performance and areas for improvement, which can be used to further refine the skills and competencies of the audit staff.

NEW QUESTION: 55

Which of the following statements is true regarding the reporting of tangible and intangible assets?

- A. For plant assets, cost includes the purchase price and the cost of design and construction
- B. For intangible assets, cost includes the purchase price and development costs.
- C. Due to their indefinite nature, intangible assets are not subject to amortization.
- D. The organization must expense any cost incurred in developing a plant 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.

NEW QUESTION: 56

Which of the following best demonstrates that the internal audit activity is using due professional care?

- A.** The internal audit activity reports directly to the board on the engagements it performs.
- B.** Internal auditors undertake the necessary training to complete their audit work.
- C.** The completion of engagements is based on the assumption that fraudulent activities may exist.
- D.** Internal auditors consider the use of technology-based audit and other data analysis techniques

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.

NEW QUESTION: 57

A rapidly expanding retail organization continues to be tightly controlled by its original small management team. Which of the following is a potential risk in this vertically centralized organization?

- A.** Lack of coordination among different business units
- B.** Operational decisions are inconsistent with organizational goals.
- C.** Suboptimal decision-making.
- D.** Duplication of business activities.

Answer: ([SHOW ANSWER](#))

Introduction:

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

NEW QUESTION: 58

A regional entertainment organization is in the process of developing a corporate social responsibility (CSR) policy. Management invites ideas from employees when developing the CSR policy Which of the following is the most appropriate idea to include?

- A.** Management has overall responsibility for the effectiveness of governance, risk management, and internal control processes associated with CSR.
- B.** The board is responsible for ensuring that CSR objectives are established, risks are managed, performance is measured, and activities are appropriately monitored and reported

C. Management is responsible for ensuring that the organization's CSR principles are communicated, understood, and integrated into decision-making processes.

D. Generally, CSR activities are limited to the management of the organization, thus, employees do not have a responsibility for ensuring the success of CSR objectives.

Answer: ([SHOW ANSWER](#))

CSR Policy Development: In developing a Corporate Social Responsibility (CSR) policy, it is important that the principles of CSR are communicated and understood throughout the organization.

Integration into Decision-Making: Management's responsibility includes ensuring that CSR principles are not only communicated but also integrated into the organization's decision-making processes at all levels. This ensures that CSR is part of the organizational culture and operational strategies.

Board's Role: While the board has a role in overseeing and ensuring that CSR objectives are established and risks are managed, the day-to-day responsibility for integrating CSR into business operations lies with management.

IIA Guidance: According to IIA guidance, internal auditors should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities, which include CSR initiatives (Standard 2110 - Governance).

NEW QUESTION: 59

Which of the following internal audit activities is performed in the design evaluation phase?

A. The internal auditor reviews prior audits and workpapers

B. The internal auditor identifies the controls over segregation of duties.

C. The internal auditor checks a process for completeness.

D. The internal auditor communicates the audit results to management

Answer: ([SHOW ANSWER](#))

To determine which internal audit activity is performed in the design evaluation phase, it's essential to understand what each phase in the audit process entails. The design evaluation phase involves assessing whether the design of controls is adequate to mitigate risks to acceptable levels.

NEW QUESTION: 60

Which of the following is the PRIMARY objective of IT general controls?

A. Improve employee productivity.

B. Ensure reliability of information systems.

C. Reduce operational staffing.

D. Eliminate all cyber threats.

Answer: ([SHOW ANSWER](#))

ITGCs support the confidentiality, integrity, and availability of systems and information.

NEW QUESTION: 61

Which of the following is the most appropriate reason for a chief audit executive to conduct an external assessment more frequently than five years?

- A.** Significant changes in the organization's accounting policies or procedures would warrant timely analysis and feedback.
- B.** More frequent external assessments can serve as an equivalent substitute for internal assessments.
- C.** The parent organization's internal audit activity agreed to perform biennial reciprocal external assessments to provide greater assurance at a reduced cost.
- D.** A change in senior management or internal audit leadership may change expectations and commitment to conformance

Answer: (SHOW ANSWER)

Introduction:

The frequency of external assessments for the internal audit activity (IAA) is typically every five years. However, certain circumstances may necessitate more frequent assessments.

Reasons for More Frequent Assessments:

Significant organizational changes or shifts in internal audit leadership can impact the effectiveness and alignment of the internal audit function with organizational goals.

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NEW QUESTION: 62

The internal audit activity is planning an assurance engagement for a foreign subsidiary. According to IIA guidance, which of the following would be included in the preliminary communication to management of the area under review?

- A.** The scope of the engagement, the estimated time frame, and the names of the auditors.
- B.** The estimated time frame, the names of the auditors, and the resources and travel budget
- C.** The names of the auditors, the resources and travel budget, and the scope of the engagement.
- D.** The resources and travel budget, the scope of the engagement, and the estimated time frame.

Answer: (SHOW ANSWER)

Preliminary Communication: Preliminary communication to management of the area under review is essential in setting clear expectations and ensuring transparency regarding the upcoming audit.

Key Elements to Include:

Scope of the Engagement: Define what will be covered in the audit to ensure that management understands the focus areas and objectives.

Estimated Time Frame: Provide a timeline for the audit activities, including the start and end dates, to help management plan and allocate resources accordingly.

Names of the Auditors: Identify the auditors involved to facilitate communication and coordination with the audit team.

IIA Guidance: According to the IIA standards, communicating these elements helps in building a cooperative relationship and ensures that there are no misunderstandings regarding the audit process.

NEW QUESTION: 63

According to IIA guidance, which of the following statements is true regarding due professional care?

- A.** Internal auditors must exercise due professional care to ensure that all significant risks will be identified.
- B.** Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.
- C.** Due professional care requires the internal auditor to conduct extensive examinations and verifications to ensure fraud does not exist.
- D.** Due professional care is displayed during a consulting engagement when the internal auditor focuses on potential benefits of the engagement rather than the cost

Answer: ([SHOW ANSWER](#))

Due professional care is a critical concept in internal auditing, ensuring that auditors conduct their work with the necessary diligence and competence.

Definition and Standards: According to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards), specifically Standard 1220 Due Professional Care, internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

Reference: Standard 1220 emphasizes that internal auditors must consider the extent of work needed to achieve the engagement's objectives and the cost of assurance in relation to potential benefits.

Expectation of Competence: The standard requires auditors to use their professional judgment and to exercise the level of skill and care that a reasonably prudent internal auditor would use in similar circumstances.

NEW QUESTION: 64

The internal audit activity plans to assess the effectiveness of management's self-assessment activities regarding the risk management process. Which of the following procedures would be most appropriate to accomplish this objective?

- A.** Review corporate policies and board minutes for examples of risk discussions.
- B.** Conduct interviews with line and senior management on current practices.
- C.** Research and review relevant industry information concerning key risks.
- D.** Observe and test control and monitoring procedures and related reporting.

Answer: ([SHOW ANSWER](#))

To assess the effectiveness of management's self-assessment activities regarding the risk management process, internal auditors should directly observe and test the control and monitoring procedures.

This hands-on approach allows auditors to verify the implementation and functionality of risk management controls and the accuracy of related reporting. Direct observation and testing provide the most reliable evidence of the effectiveness of these procedures.

NEW QUESTION: 65

Which of the following is the next step in understanding a business process once an internal auditor has identified the process?

- A. Determine process outputs
- B. Determine process inputs.
- C. Determine process activities.
- D. Determine process goals

Answer: ([SHOW ANSWER](#))

Once an internal auditor has identified a business process, the next step is to understand the specific activities involved in that process. This includes mapping out each step or action taken within the process to gain a detailed understanding of how it operates. Identifying process activities helps in evaluating the efficiency, effectiveness, and potential risks associated with the process

NEW QUESTION: 66

Which of the following statements is true regarding the management-by-objectives method?

- A. Management by objectives is most helpful in organizations that have rapid changes
- B. Management by objectives is most helpful in mechanistic organizations with rigidly defined tasks.
- C. Management by objectives helps organizations to keep employees motivated.
- D. Management by objectives helps organizations to distinguish clearly strategic goals from operational goals

Answer: ([SHOW ANSWER](#))

Definition of Management by Objectives (MBO): Management by Objectives is a performance management approach where managers and employees work together to identify, plan, organize, and communicate objectives. This method involves setting clear, measurable goals with defined timelines.

Key Benefits:

Employee Motivation: MBO aligns individual goals with organizational objectives, fostering a sense of ownership and engagement among employees. By participating in goal-setting, employees are more motivated to achieve these objectives, as they see a direct link between their efforts and organizational success.

Performance Measurement: Clear objectives allow for effective performance measurement and provide a basis for performance appraisals and feedback.

NEW QUESTION: 67

Which of the following is an example of a directive control?

- A. Segregation of duties
- B. Exception reports
- C. Training programs,
- D. Supervisory review.

Answer: ([SHOW ANSWER](#))

Directive controls are designed to encourage desired behavior or outcomes.

NEW QUESTION: 68

Which of the following activities would an internal auditor perform as a consulting engagement for an organization?

- A. Advising new internal auditors working for the organization on how to develop strategies on planning audits for the upcoming fiscal year
- B. Assessing whether the organization's corporate social responsibility program is meeting its yearly goals to reduce carbon emissions.
- C. Briefing the organization's department managers on how to implement risk management processes into their daily operations.
- D. Communicating with senior management to better understand how new purchasing controls will minimize payment processing time

Answer: ([SHOW ANSWER](#))

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.

NEW QUESTION: 69

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annual snowfall for the coming winter. Which of the following best describes this type of risk?

- A. Residual
- B. Net

C. inherent.

D. Accepted.

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: 70

An engagement supervisor obtains facilities maintenance reports from a contractor during an audit of third-party services. Which of the following is the source of authority for the engagement supervisor to make such contact outside the organization?

A. The policies and procedures of the internal audit activity.

B. The provisions of the internal audit charter.

C. The authority of the CEO.

D. The IIA's Code of Ethics.

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: 71

Which of the following offers the best evidence that the internal audit activity has achieved organizational independence?

- A. An independent third party has assessed the organization's system of internal controls to be adequate and effective.
- B. The chief audit executive reports both functionally and administratively to the CEO
- C. The internal audit charter is drafted properly and approved by the appropriate parties.
- D. The mission statement and strategy of the internal audit activity demonstrates alignment to organizational objectives

Answer: (SHOW ANSWER)

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. It is crucial for establishing the internal audit function's independence and objectivity. When the internal audit charter is properly drafted and approved by the appropriate parties, it provides a clear mandate for the internal audit activity and sets the foundation for its operations. This ensures that the internal audit activity can function independently without undue influence from management.

NEW QUESTION: 72

Which of the following is the primary engagement responsibility of an entry-level internal auditor?

- A. Leadership
- B. Documentation.
- C. Analysis.
- D. Reporting

Answer: (SHOW ANSWER)

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.

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