Question 1 - CIA 592 I-23 - Internal Auditing

An internal auditor would trace copies of sales invoices to shipping documents in order to determine that

A. Sales that are billed were also shipped.
B. The subsidiary accounts receivable ledger was updated.
C. Customer shipments were billed.
D. Shipments to customers were also recorded as receivables.

A. **If all the invoices in the sample can be correctly matched with shipping documents then there is some assurance that all or most items billed are also shipped.**

B. Tracing copies of sales invoices to shipping documents will not determine that the subsidiary accounts receivable ledger was updated.

C. Since the tracing is starting with copies of sales invoices and then comparing them to shipping documents, this procedure would not determine that all shipments to customers have been billed.

D. Tracing copies of sales invoices to shipping documents will not determine that all shipments to customers have also been recorded as receivables.

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Question 2 - CIA 588 II-12 - Internal Auditing

While planning an audit, an internal auditor establishes audit objectives to describe what is to be accomplished. Which of the following is a key issue to consider in developing audit objectives?

A. Recommendations of the auditee's employees.
B. The qualifications of the audit staff selected for the engagement.
C. The recipients of the audit report.
D. The auditee's objectives and control structure.

A. Recommendations of the auditee's employees are not key issues to consider in developing audit objectives.

B. The selection of audit staff members can only be done after the audit objectives have been developed.

C. The recipients of the audit report are not key issues to consider in developing audit objectives.

D. **The auditee’s objectives and control structure are key issues to consider in developing audit objectives.**

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Question 3 - CIA 1190 II-43 - Internal Auditing

Which of the following is a proper element in an audit findings section of a report?

A. Significance of deficiencies.
B. Engagement plan.
C. Status of findings from prior reports.
D. Personnel used.

A. **The significance of deficiencies found is an audit finding and does belong in the audit findings section of the audit report.**

B. The engagement plan does not belong in the audit findings section of the audit report.

C. The status of findings from prior reports (i.e., corrective actions taken) does not belong in the audit findings section of the audit report.
D. Personnel used does not belong in the audit findings section of the audit report.

Question 4 - CIA 589 III-2 - Internal Auditing

The director of internal auditing at a large multinational firm is evaluating the draft of a new travel policy that requires preparation of a travel planning form for all travel. The travel planning form must be approved by the employee’s supervisor and the regional vice president. The director of internal auditing should

A. Address whether the new travel approval policy is an effective control and an efficient use of time for the supervisors and vice presidents involved.
B. Avoid involvement in reviewing policies and procedures because such involvement would impair audit independence.
C. Suggest that a copy of the travel planning form should be sent to the internal audit department.
D. Ensure that examples of all signatures are on file to use during travel reimbursement procedures.

A. The internal audit department must have independence and objectivity and should not have any direct relationships with the various departments it will be auditing. However, objectivity is not impaired if the internal audit recommends standards of control for systems or reviews procedures before implementation. Evaluation of the adequacy and effectiveness of the control system is, in fact, one of the responsibilities of the internal audit function.

B. The internal audit department must have independence and objectivity and should not have any direct relationships with the various departments it will be auditing. However, objectivity is not impaired if the internal audit recommends standards of control for systems or reviews procedures before implementation. Evaluation of the adequacy and effectiveness of the control system is, in fact, one of the responsibilities of the internal audit function. There is no need for the director of internal auditing to avoid involvement in reviewing policies and procedures before they are implemented.

C. Suggesting that a copy of the travel planning form should be sent to the internal audit department is inappropriate because there is no reason for the audit department to receive a copy of the travel planning form.

D. The internal audit department must have independence and objectivity and should not have any direct relationships with the various departments it will be auditing. Ensuring that examples of all signatures are on file to use during travel reimbursement procedures is a procedure that may be used in a future audit of the travel approval function; it is not appropriate for the director of internal auditing to get involved in this operational responsibility now.

Question 5 - CIA 596 I-12 - Internal Auditing

A manufacturing organization uses hazardous materials in production of its products. An audit of these hazardous materials may include:

I. Recommending an environmental management system as a part of policies and procedures.
II. Verifying the existence of "cradle to grave" (creation to destruction) tracking records for these materials.
III. Using consultants to avoid self-incrimination of the firm in the event illegalities were detected in an environmental audit.
IV. Evaluating the cost provided for in an environmental liability accrual account.

A. I, II and IV.
B. II only.
C. I and II only.
D. III and IV.

A. A hazardous materials audit may include recommending an environmental management system as a part
of policies and procedures, verifying the existence of "cradle to grave" tracking records for hazardous materials, and evaluating the cost provided for in an accrual account for environmental liability for hazardous materials.

B. Verifying the existence of "cradle to grave" tracking records for hazardous materials is not the only item listed that could be included in a hazardous materials audit.

C. Recommending an environmental management system as a part of policies and procedures and verifying the existence of "cradle to grave" tracking records for hazardous materials are not the only items listed that could be included in a hazardous materials audit.

D. Using consultants to avoid self-incrimination of the firm in the event illegalities are detected in an environmental audit is neither appropriate nor necessary. There is no requirement for internal auditors to report to external parties any violations of environmental laws they may discover.

Question 6 - CIA 595 I-52 - Internal Auditing

Internal auditors are often called upon to either perform, or assist the external auditor in performing, a due diligence review. A due diligence review may be

A. An operational audit of a division of an organization to determine if divisional management is complying with laws and regulations.
B. A review of interim financial statements as directed by an underwriting firm.
C. A review of financial statements and related disclosures in conjunction with a potential acquisition.
D. A review of operations as requested by the audit committee to determine whether the operations comply with audit committee and organizational policies.

A. An operational audit of a division of an organization to determine if divisional management is complying with laws and regulations is not a due diligence review.

B. A review of interim financial statements as directed by an underwriting firm is not a due diligence review.

C. A due diligence engagement is an investigative analysis of the financial and operating activities of an entity in connection with a proposed major transaction, such as a business combination. A due diligence engagement includes review of the company’s strategic overview, business overview, accounting and information systems, sales, risk management, tax issues, and any other matters of importance in determining whether there is justification for the transaction.

D. A review of operations as requested by the audit committee to determine whether the operations comply with audit committee and organizational policies is not a due diligence review.

Question 7 - CIA 597 I-58 - Internal Auditing

Which of the following statements is (are) correct regarding the deterrence of fraud?

I. The primary means of deterring fraud is through an effective control system initiated by senior management.

II. Internal auditors are responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy of the internal control system.

III. Internal auditors should determine whether communication channels provide management with adequate and reliable information regarding the effectiveness of the control system and the occurrence of unusual transactions.

A. II only.
B. I and II only.
C. I, II, and III.
D. I only.

A. An internal audit program that evaluates the adequacy of the internal control system is important, but it is not the only listed activity that is correct regarding the deterrence of fraud.

B. An effective control system and an internal audit program that evaluates the adequacy of the internal control system are important. However, they are not the only listed activities that are correct regarding the deterrence of fraud.

C. An effective control system, an internal audit program that evaluates the adequacy of the internal control system, and an adequate communication channel to provide management with reliable information regarding internal control issues are all important deterrents to fraud.

D. An effective control system initiated by senior management is important, but it is not the only listed activity that is correct regarding the deterrence of fraud.

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**Question 8 - CIA 1196 I-8 - Internal Auditing**

The chief audit executive (CAE) plans an engagement to verify that the job retraining program complies with applicable grant provisions. One of the provisions is that the city adopt a budget for the program and subsequently follow procedures to ensure that the budget is adhered to and that only allowable costs are charged to the program. In performing an engagement concerning compliance with this provision, the internal auditors should perform all of the following procedures except

A. Determine that the budget was reviewed and approved by supervisory personnel within the granting agency.
B. Select a sample of expenditures to determine that the expenditures are (1) properly classified as to type, (2) appropriate to the program, and (3) designed to meet the program’s objectives.
C. Determine that the budget was reviewed and approved by supervisory personnel within the city.
D. Compare actual results with budgeted results and determine the reason for deviations. Determine if such deviations have been approved by appropriate officials.

A. The city's internal auditors are responsible for determining whether the city is in compliance with the grant requirements. Whether the budget was reviewed and approved by supervisory personnel within the granting agency is outside the scope of the audit and therefore should not be performed.

B. Examining a sample of expenditures should be performed because it can determine whether the city is following procedures to ensure that only allowable costs are charged to the program, as required by the grant.

C. One of the requirements of the grant is that the city adopt a budget for the program. In order to determine whether the city is in compliance with the grant requirements, the internal auditor should verify whether the budget was reviewed and approved by supervisory personnel within the city.

D. Comparing actual results with budgeted results, determining deviations and whether such deviations have been approved by appropriate officials should be performed because it can determine whether the city is following procedures to ensure that the budget is adhered to, as required by the grant.

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**Question 9 - CIA 1196 II-11 - Internal Auditing**

According to the relevant *Standards*, reported audit findings emerge by a process of comparing "what should be" with "what is". In determining "what should be" during an audit of a company's treasury function, which of the following would be the least desirable criteria against which to judge current operations?

A. The operations of the treasury function as documented during the last engagement.
B. Codification of best practices of the treasury function in relevant industries.
C. Company policies and procedures delegating authority and assigning responsibilities.
D. Finance textbook illustrations of generally accepted good treasury function practices.
A. Since the operations of the treasury function as documented during the last engagement may not have been in compliance with organizational policies and procedures, these operations are not a desirable criterion against which to judge current operations.

B. Codification of best practices of the treasury function in relevant industries is a good criterion against which to judge current operations.

C. Organizational policies and procedures delegating authority and assigning responsibilities are a good criterion against which to judge current operations.

D. Textbook illustrations of generally accepted good treasury function practices are good criteria against which to judge current operations.

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**Question 10 - CMA 682 3-17 - Internal Auditing**

From a modern internal auditing perspective, which one of the following statements represents the most important benefit of an internal auditing activity to management?

A. Assurance that fraudulent activities will be detected.
B. Assurance that published financial statements are correct.
C. Assurance that the organization is complying with legal requirements.
D. Assurance that there is reasonable control over day-to-day operations.

A. Internal audit activities cannot assure that fraudulent activities will be detected.
B. Internal audit activities cannot assure that published financial statements are correct.
C. Internal audit activities cannot assure compliance with legal requirements.
D. Internal audit activities can assist the management of a company in its responsibility of maintaining effective controls by evaluating the effectiveness of those controls with the goal of continuous improvement.

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**Question 11 - CIA 1196 I-9 - Internal Auditing**

The internal auditors must determine the applicable laws and regulations. Which of the following procedures would be the least effective in learning about the applicable laws and regulations?

A. Review applicable grant agreements.
B. Make inquiries of the city's chief financial officer, legal counsel, or grant administrators.
C. Discuss the matter with the audit committee and make inquiries as to the nature of the requirements and the audit committee's objectives for the engagement.
D. Review prior-year working papers and inquire of officials as to changes.

A. Reviewing applicable grant agreements would be an effective method to learn about the applicable laws and regulations.
B. Making inquiries of the city's CFO, legal counsel, or grant administrators would be an effective method to learn about the applicable laws and regulations.
C. Discussing the matter with the audit committee is likely not to be useful. Audit committee members generally are not fluent in the applicability of laws and regulations.
D. Reviewing prior-year working papers would be an effective method to learn about the applicable laws and regulations.
Question 12 - CIA 593 I-40 - Internal Auditing

The internal audit activity for a chain of retail stores recently concluded an engagement to evaluate sales adjustments in all stores in the Southeast region. The engagement revealed that several stores are costing the organization substantial sums in duplicate credits to customers' charge accounts. The final engagement communication published 8 weeks after the engagement was concluded, incorporated the internal auditors’ recommendations to store management that should prevent duplicate credits to customers' accounts. Which of the following standards has been disregarded in the above case?

A. The internal auditors should have implemented appropriate corrective action as soon as the duplicate credits were discovered.
B. The final engagement communication was not timely.
C. Internal auditor recommendations should not be included in the final engagement communication.
D. The follow-up actions were not adequate.

A. Internal auditors make recommendations; they do not implement corrective action.
B. An oral report or interim written report should have been issued immediately to management, alerting them to the duplicate credit problem. Waiting until 8 weeks after the engagement to communicate recommendations regarding the problem was unacceptable.
C. Internal auditor recommendations should be included in the final engagement communication.
D. No information is given on follow-up actions, so the adequacy of follow-up actions cannot be evaluated.

Question 13 - CIA 588 II-43 - Internal Auditing

Audit report content and format may vary; but according to the standards, which of the following is a necessary element?

A. Documentation of previous oral communications.
B. Statement of audit objectives.
C. Related activities not audited.
D. Status of findings from prior reports.

A. All audit reports must include the purpose or objective of the audit, the scope, the results and (if appropriate) an opinion. In addition to these items, a report may also include background information, summaries, status of findings from previous audits, recommendations of potential improvements, acknowledgement of good performance and corrective actions taken, and comments from the department that was audited. Related activities not included may be identified if necessary to define the scope of the audit. However, of the potential answers given, only the statement of audit objectives is a necessary element.

B. All audit reports must include the purpose or objective of the audit, the scope, the results and (if appropriate) an opinion. In addition to these items, a report may also include background information, summaries, status of findings from previous audits, recommendations of potential improvements, acknowledgement of good performance and corrective actions taken, and comments from the department that was audited. Related activities not included may be identified if necessary to define the scope of the audit. However, of the potential answers given, only the statement of audit objectives is a necessary element.

C. All audit reports must include the purpose or objective of the audit, the scope, the results and (if appropriate) an opinion. In addition to these items, a report may also include background information, summaries, status of findings from previous audits, recommendations of potential improvements, acknowledgement of good performance and corrective actions taken, and comments from the department that was audited. Related activities not included may be identified if necessary to define the scope of the audit. However, of the potential answers given, only the statement of audit objectives is a necessary element.
D. All audit reports must include the purpose or objective of the audit, the scope, the results and (if appropriate) an opinion. In addition to these items, a report may also include background information, summaries, status of findings from previous audits, recommendations of potential improvements, acknowledgement of good performance and corrective actions taken, and comments from the department that was audited. Related activities not included may be identified if necessary to define the scope of the audit. However, of the potential answers given, only the statement of audit objectives is a necessary element.

Question 14 - CIA 1187 I-42 - Internal Auditing

Which of the following situations is most likely to be the subject of a written interim report to management of a department being audited?

A. The audit program has been expanded because of indications of possible fraud.
B. Open burning at a subsidiary plant is a possible violation of pollution regulations.
C. 70% of the planned audit work has been completed with no significant adverse findings.
D. The auditors have decided to substitute survey procedures for some of the planned detailed review of certain records.

A. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one. While an indication of possible fraud implies that additional investigation is required, it is not a situation in which an interim report should be issued.

B. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, or if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one. Open burning at a subsidiary plant which is a possible violation of pollution regulations is a situation in which an interim report is indicated because it is something that needs to be addressed immediately.

C. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one. No significant adverse findings after 70% of the planned audit work has been completed is not a situation in which an interim report should be issued.

D. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one. The auditors' decision to substitute survey procedures for some of the planned detailed review of certain records is not a situation in which an interim report should be issued.

Question 15 - CIA 1191 II-25 - Internal Auditing

Which of the following audit procedures provides the best evidence about the collectibility of notes receivable?

A. Examination of notes for appropriate debtors' signatures.
B. Reconciliation of the detail of notes receivable and the provision for uncollectible amounts to the general ledger control.
C. Examination of cash receipts records to determine promptness of interest and principal payments.
D. Positive confirmation of note receivable balances with the debtors.

A. Examination of notes for appropriate debtors' signatures establishes that the notes were documented correctly and that the documentation is valid. However, it does not provide evidence of their collectibility.

B. Reconciliation of the detail of notes receivable and the provision for uncollectible amounts to the general ledger control establishes that the general ledger balance is equal to the total of the detail supporting it. It does not provide evidence of the collectibility of the notes receivable.
C. Examination of cash receipts records to determine promptness of interest and principal payments provides the best evidence for the collectibility of the notes receivable. A history of late payments creates question as to whether any individual note is collectible.

D. Balance confirmation provides evidence that the notes receivable exist, but it does not provide evidence of their collectibility.

Question 16 - CIA 590 I-50 - Internal Auditing

When conducting fraud investigations, internal auditors should

A. Clearly indicate the extent of the internal auditors' knowledge of the fraud when questioning suspects.
B. Perform its investigation independent of lawyers, security personnel, and specialists from outside the organization who are involved in the investigation.
C. Assess the probable level of, and the extent of complicity in, the fraud within the organization.
D. Assign personnel to the investigation in accordance with the engagement schedule established at the beginning of the fiscal year.

A. When interviewing someone who may be involved in fraud, an auditor should not reveal what he or she already knows. One way of determining whether the interviewee is truthful and wants to cooperate is to ask questions to which the auditor already knows the answer.

B. It is important that all parties involved in a fraud investigation coordinate their efforts.

C. When conducting fraud investigations, internal auditors should assess the probable level of, and the extent of complicity in, the fraud within the organization. It is important to know how many people may be involved and who they are.

D. Fraud investigations are unexpected and therefore cannot be scheduled. When a fraud investigation is necessary, the personnel assigned should be those most qualified to investigate the particular situation.

Question 17 - CMA 1294 2-30 - Internal Auditing

There are three components of audit risk: inherent risk, control risk, and detection risk. Inherent risk is

A. The susceptibility of an assertion to a material misstatement, assuming that there are no related internal control structure policies or procedures.
B. The risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated.
C. The risk that the auditor will not detect a material misstatement that exists in an assertion.
D. The risk that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by the entity's internal control structure policies or procedures.

A. Inherent risk is the susceptibility of an assertion to a material misstatement, assuming that there are no related internal control structure policies or procedures. Inherent risk is independent of the audit. The lower the inherent risk is judged by the auditor to be, the higher can be the detection risk. And the higher the inherent risk is judged by the auditor to be, the lower must be the detection risk.

B. The risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated is the definition of audit risk.

C. The risk that the auditor will not detect a material misstatement that exists in an assertion is the definition of detection risk.

D. The risk that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by the entity's internal control structure policies or procedures is the definition of control risk.
Question 18 - CIA 590 I-49 - Internal Auditing

An internal auditor has detected probable employee fraud and is preparing a preliminary report for management. This report should include

A. The auditor’s conclusion as to whether sufficient information exists to conduct an investigation.
B. A statement that an internal audit conducted with due professional care cannot provide absolute assurance that irregularities have not occurred.
C. The results of a polygraph test administered to the suspected perpetrator(s) of the fraud.
D. A list of proposed audit tests to help disclose the existence of similar frauds in the future.

A. In the event that an internal auditor detects probable employee fraud, the auditor’s responsibility is to immediately report the findings to management and to make a recommendation as to whether sufficient information exists to conduct an investigation.

B. A report containing language such as this would be a report reporting that no fraud has been detected.

C. Results of a polygraph test would be part of the investigation. The investigation would follow the auditor’s interim report of findings, if in fact sufficient information exists to conduct an investigation.

D. A preliminary audit report detailing probable employee fraud would not contain a list of proposed audit tests to help disclose the existence of similar frauds in the future.

Question 19 - CIA 1191 I-18 - Internal Auditing

Management believes that some specific sales commissions for the year were too large. The accuracy of the recorded commission expense for specific salespersons is best determined by

A. Calculating commission ratios.
B. Use of analytical procedures.
C. Tests of overall reasonableness.
D. Computation of selected sales commissions.

A. Since management is questioning specific sales commissions, calculating commission ratios would not be useful, since the ratios would be based on total sales and total commissions rather than on the sales made by and commissions paid to specific sales persons.

B. Since management is questioning specific sales commissions, use of analytical procedures would not be useful, since the analytical procedures would be based on totals rather than specific transactions.

C. Since management is questioning specific sales commissions, tests of overall reasonableness would not be useful, since the tests would be based on totals rather than specific transactions.

D. Since management is questioning specific sales commissions, the accuracy of the recorded commission for specific salespersons will be best determined by recomputing a sample of commissions for the salespeople whose commissions are in question.

Question 20 - CIA 1184 I-14 - Internal Auditing

The primary difference between operational engagements and financial engagements is that in the former the internal auditors
A. Can use analytical skills and tools that are not necessary in financial engagements.
B. Are not concerned with whether the client entity is generating information in compliance with financial accounting standards.
C. Are seeking to help management use resources in the most effective manner possible.
D. Start with the financial statements of the client entity and works backward to the basic processes involved in producing them.

A. Analytical skills and tools are necessary in financial engagements.
B. Internal auditors are concerned with the integrity and reliability of presented financial reports. Making sure the presented financial statements are in accordance with accounting standards is important in operational engagements.

C. The primary difference between financial and operational engagements is that in the former the internal auditor is seeking to form an opinion on the fairness of the financial statements, whereas, operational engagements involves evaluating the efficiency and economical use of the organization's resources.
D. Internal auditors start with the financial statements and work back when conducting a financial engagement.

**Question 21** - CIA 595 I-60 - Internal Auditing

It has been established that an internal auditing charter is one of the more important factors positively affecting the internal auditing department's independence. Which of the following would not be an important element to include in the Charter?

A. The length of tenure for the chief audit executive.
B. The department's access to personnel within the organization.
C. The scope of internal auditing activities.
D. The department's access to records within the organization.

A. The charter does not specify the length of tenure of the chief audit executive.
B. The charter authorizes access to personnel within the organization.
C. The charter defines the scope of internal audit activities.
D. The charter authorizes the internal audit activity's access to records within the organization.

**Question 22** - CIA 1188 I-43 - Internal Auditing

An objective report is one that is described as

A. To the point and free of unnecessary detail.
B. Through content and tone, designed to help the auditee as well as the organization.
C. Logical and easily understood.
D. Factual, unbiased, and free from distortion.

A. This is the definition of a concise report, not an objective report.
B. This is the definition of a constructive report, not an objective report.
C. This is the definition of a clear report, not an objective report.
D. “Objective” as used here means “without bias or prejudice.” An objective report is factual, unbiased, and free from distortion.
**Question 23** - CIA 591 I-26 - Internal Auditing

An internal auditor discovered an error in a receivable due from a major stockholder. The receivable's balance accounts for less than 1% of the company's total receivables. Would the auditor be likely to consider the error to be material?

A. No, if there will be further transactions with this stockholder.
B. Yes, because a related party is involved.
C. Yes, if audit risk is low.
D. No, because a small dollar amount is in error.

A. Audit risk and materiality are used to determine the nature, timing, and extent of audit procedures to be completed, as well as their evaluation. Audit risk is the risk that an auditor will give an unqualified (everything is fine) opinion, when in reality there is one or more than one material misstatement. The risk of a material misstatement is the calculated result of the multiplication of three risk factors. These three risks are (1) inherent risk, the risk that is natural in an element of the financial statements or the function being audited, assuming that there are no controls; (2) control risk, the risk that an internal control will not prevent or detect a material misstatement in a timely manner; and (3) detection risk, the risk that an auditor will not detect a material misstatement in the financial statements through their audit testing. Since related party transactions have a higher inherent risk than other transactions, the audit risk will actually be higher than with other transactions and will increase with further transactions with the same stockholder. When audit risk is higher, an auditor is more likely to consider the error to be material.

B. Audit risk and materiality are used to determine the nature, timing, and extent of audit procedures to be completed, as well as their evaluation. Audit risk is the risk that an auditor will give an unqualified (everything is fine) opinion, when in reality there is one or more than one material misstatement. The risk of a material misstatement is the calculated result of the multiplication of three risk factors. These three risks are (1) inherent risk, the risk that is natural in an element of the financial statements or the function being audited, assuming that there are no controls; (2) control risk, the risk that an internal control will not prevent or detect a material misstatement in a timely manner; and (3) detection risk, the risk that an auditor will not detect a material misstatement in the financial statements through their audit testing. Since related party transactions have a higher inherent risk than other transactions, the audit risk will be higher than with other transactions. Therefore, the auditor is more likely to consider the error to be material.

C. Audit risk and materiality are used to determine the nature, timing, and extent of audit procedures to be completed, as well as their evaluation. Audit risk is the risk that an auditor will give an unqualified (everything is fine) opinion, when in reality there is one or more than one material misstatement. The risk of a material misstatement is the calculated result of the multiplication of three risk factors. These three risks are (1) inherent risk, the risk that is natural in an element of the financial statements or the function being audited, assuming that there are no controls; (2) control risk, the risk that an internal control will not prevent or detect a material misstatement in a timely manner; and (3) detection risk, the risk that an auditor will not detect a material misstatement in the financial statements through their audit testing. Since related party transactions have a higher inherent risk than other transactions, the audit risk will actually be higher in this situation. When audit risk is higher, an auditor is more likely to consider the error to be material.

D. Audit risk and materiality are used to determine the nature, timing, and extent of audit procedures to be completed, as well as their evaluation. Audit risk is the risk that an auditor will give an unqualified (everything is fine) opinion, when in reality there is one or more than one material misstatement. The risk of a material misstatement is the calculated result of the multiplication of three risk factors. These three risks are (1) inherent risk, the risk that is natural in an element of the financial statements or the function being audited, assuming that there are no controls; (2) control risk, the risk that an internal control will not prevent or detect a material misstatement in a timely manner; and (3) detection risk, the risk that an auditor will not detect a material misstatement in the financial statements through their audit testing. Since related party transactions have a higher inherent risk than other transactions, the audit risk will be higher than with other transactions. Therefore, the auditor is more likely to consider the error to be material even though the amount of the error is small.

**Question 24** - CMA 684 3-29 - Internal Auditing

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Which one of the following is most likely to be considered a reportable condition?

A. The petty cash custodian has the ability to steal petty cash. Documentation for all disbursements from the fund must be submitted with the request for replenishment of the fund.
B. An accounts receivable clerk, who approves sales returns and allowances, receives customer remittances and deposits them in the bank. Limited supervision is maintained over the employee.
C. A clerk in the invoice processing department fails to match a vendor’s invoice with its related receiving report. Checks are not signed unless all appropriate documents are attached to a voucher.
D. An inventory control clerk at a manufacturing plant has the ability to steal one completed television set from inventory a year. The theft probably will never be detected.

A. If the requirement for documentation of disbursements from the fund includes the requirement that the documentation be approved, and if the approving signature is matched against specimen signatures on file, and if the petty cash fund is reconciled regularly, any theft from the fund will be detected.

B. An accounts receivable clerk who receives customer remittances, deposits funds in the bank, and who has the authority to approve sales returns and allowance is a reportable condition. The clerk could steal a customer remittance and cover up the theft by approving a credit memo to the customer’s account.

C. If the receiving report is not included with the backup to the check, the check will not be signed. This is a detective control as well as a preventive control. It would detect the oversight and prevent a check from being sent out that might possibly not be legitimate. Thus, this would not be a reportable condition.

D. This would probably not be a reportable condition, because the amount of potential theft is probably not material.

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**Question 25** - CIA 1196 III-30 - Internal Auditing

The proper organizational role of internal auditing is to

A. Perform studies to assist in the attainment of more efficient operations.
B. Serve as the investigative arm of the board of directors.
C. Assist the external auditor in order to reduce external audit fees.
D. Serve as an appraisal function to examine and evaluate activities as a service to the organization.

A. One of the roles of internal auditing is the performance of studies to assist in the attainment of more efficient operations. However, primary role of internal auditing is much more than this.

B. The role of internal auditing is not limited to serving as the investigative arm of the board. The internal audit activity assists the management of a company in its responsibility of maintaining effective controls by evaluating the effectiveness of those controls.

C. Although external audit fees may be reduced as a result of the internal auditing activities, this is not the primary role of internal auditing.

D. The primary role of the internal audit activity is to assist the management of a company in its responsibility of maintaining effective controls by evaluating the effectiveness of those controls. In this role, it serves as an appraisal function that adds value to operations.

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**Question 26** - CIA 589 II-2 - Internal Auditing

The authority of the internal audit activity is limited to that granted by

A. Management and the board.
B. The board and the controller.
C. The audit committee and the chief financial officer.
D. Senior management and the Standards.

(c) HOCK international, page 12
A. Management and the board of directors grant authority to the internal audit activity.

B. No single manager grants authority to the internal audit activity.

C. No single officer and no single committee grant authority to the internal audit activity.

D. The Standards do not grant authority to the internal audit activity.

Question 27 - CIA 587 II-44 - Internal Auditing

The scope section of an internal audit report should identify

A. Any unresolved differences with auditees.
B. Any limitations imposed.
C. The audit techniques used.
D. The sampling methodology employed.

A. Any unresolved differences with auditees is not covered in the scope section of the internal audit report.

B. Any limitations imposed on the audit should be covered in the scope section of the internal audit report.

C. Audit techniques used is not covered in the scope section of an internal audit report.

D. The sampling methodology employed is not covered in the scope section of an internal audit report.

Question 28 - CIA 590 II-33 - Internal Auditing

The scope statement of an internal audit report should

A. State the factual evidence that the auditor found in the course of the examination.
B. Define the standards, measures, or expectations used in evaluating audit findings.
C. Communicate the internal auditor's evaluation of the effect of the findings on the activities reviewed.
D. Identify the audited activities and describe the nature and extent of auditing performed.

A. The factual evidence that the auditor found in the course of the examination are not part of the "scope" statement of an internal audit report. That is contained in the "conditions" section of the audit report.

B. Information on the standards, measures, or expectations used in evaluating audit findings is not part of the "scope" statement of an internal audit report. They are contained in the "criteria" section of the report, which is "what should be" the conditions that the actual conditions are to be compared and contrasted with.

C. The internal auditor's evaluation of the effect of the findings on the activities reviewed is not part of the "scope" statement of an internal audit report. That is contained in the "conclusions" section of the audit report.

D. The "scope" section of the audit report contains information to identify what activities were audited, time period audited, and the extent and nature of the auditing that was performed.

Question 29 - CIA 598 I-9 - Internal Auditing

Which of the following best describes an auditor’s responsibility after noting some indicators of fraud?

A. Report the possibility of fraud to top management and ask them how they would like to proceed.
B. Consult with external legal counsel to determine the course of action to be taken, including the approval of the proposed audit program to make sure it is acceptable on legal grounds.
C. Report the matter to the audit committee and request funding for outside specialists to help investigate the possible fraud.
D. Expand activities to determine whether an investigation is warranted.

A. The auditor should first expand work to determine the existence of fraud before reporting the matter to top management. At this point, the auditor only has suspicions of fraud, given the red flags. More work should be performed before consulting with management, external legal counsel, or the audit committee.
B. The auditor should first expand work to determine the existence of fraud before reporting the matter to top management. At this point, the auditor only has suspicions of fraud, given the red flags. More work should be performed before consulting with management, external legal counsel, or the audit committee.
C. The auditor should first expand work to determine the existence of fraud before reporting the matter to top management. At this point, the auditor only has suspicions of fraud, given the red flags. More work should be performed before consulting with management, external legal counsel, or the audit committee.
D. In conducting audit assignments, the internal auditor should have sufficient knowledge of fraud to identify red flags indicating fraud may have been committed. If fraud is indicated then the internal auditor should expand activities to determine whether an investigation is warranted.

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**Question 30 - CIA 1196 I-7 - Internal Auditing**

The internal auditors randomly select participants in the job retraining program for the past year to verify that they had met all the eligibility requirements. This type of engagement is concerned with

A. Economy and efficiency.
B. Program results.
C. Operational effectiveness.
D. Compliance.

A. The engagement is to verify that the organization has met all the eligibility requirements, not whether the program is performing economically and efficiently.
B. The engagement is to verify that the organization has met all the eligibility requirements, not whether to measure the program results.
C. The engagement is to verify that the organization has met all the eligibility requirements, not a review of the program’s effectiveness.
D. The grant specifies certain conditions that must be meant in order to be eligible for funding. A compliance engagement would indicate whether the activities are in compliance with the requirements.

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**Question 31 - CMA 1284 5-28 - Internal Auditing**

The use of a generalized audit software package

A. Is a form of auditing around the computer.
B. Overcomes the need for an auditor to learn much about computers.
C. Relieves an auditor of the typical tasks of investigating exceptions, verifying sources of information, and evaluating reports.
D. Is a major aid in retrieving information from computerized files.

A. Use of a generalized audit software package provides a means to use the computer in audits, not to audit around
the computer.

B. In order to use generalized audit software, an auditor must have some knowledge of computers.

C. The auditor is not relieved of the tasks of investigating exceptions, verifying sources of information, and evaluating reports because of the use of a generalized audit software package.

D. Generalized Audit Software (GAS) enables auditors to access client data. GAS is designed to permit auditors to process data needed in audits. GAS packages can select sample data from data files, check computations, and search the data files for unusual items.

Question 32 - CIA 593 II-39 - Internal Auditing

Which of the following would not be considered an objective of the audit closing or exit conference?

A. To identify management's actions and responses to the findings.
B. To discuss the findings.
C. To identify concerns for future audits.
D. To resolve conflicts.

A. Identifying management's actions and responses to the findings is an objective of the audit closing or exit conference.

B. Discussing the findings is an objective of the audit closing or exit conference.

C. Identifying concerns for future audits is not an objective of the audit closing or exit conference.

D. Resolving conflicts is an objective of the audit closing or exit conference.

Question 33 - CIA 1192 I-3 - Internal Auditing

In the performance of an internal audit, audit risk is best defined as the risk that an auditor

A. May not be able to properly evaluate an activity because of its poor internal accounting controls.
B. Might not select documents that are in error as part of the examination.
C. May not have the expertise to adequately audit a specific activity.
D. May fail to detect a significant error or weakness during an examination.

A. If an auditor were not able to properly evaluate an activity because of its poor internal accounting controls, control risk would be assessed as very high. This would increase audit risk, since audit risk is the product of inherent risk, control risk, and detection risk. However, this is not, by itself, audit risk.

B. If an auditor did not select documents that were in error and therefore concluded that the population was accurate, when in fact there were numerous errors in it, that would be a "Type II error," or "beta risk," because the population has been accepted incorrectly. This is not audit risk.

C. The risk that an auditor may not have the expertise to adequately audit a specific activity is not audit risk.

D. Audit risk is the risk that an auditor will give an unqualified (everything is fine) opinion, when in reality there is one or more than one material misstatement.

Question 34 - CIA 594 II-50 - Internal Auditing
An internal auditor is conducting interviews of three employees who had access to a valuable asset that has disappeared. In conducting the interviews the internal auditor should:

A. Respond to non-cooperation by threatening adverse consequences of such behavior.
B. Allow a suspect to return to work after the interview so as not to arouse suspicions.
C. Conduct the interviews in a group.
D. Not indicate that management will forgo prosecution if restitution is made.

A. Threats are not productive. An attitude of seeking the truth is appropriate.
B. An internal auditor should not allow a suspect to return to work, because doing so could give the suspect an opportunity to destroy evidence. A suspect should be suspended pending further investigation.
C. People should be interviewed individually in order to obtain their independent statements.
D. An internal auditor should not indicate that management will forgo prosecution if restitution is made.

Question 35 - CIA 590 I-33 - Internal Auditing

In which section of the final report should the internal auditor describe the audit objectives?

A. Scope.
B. Purpose.
C. Condition.
D. Criteria.

A. The objectives of the audit are not part of the "Scope" section of the audit report. The scope section of the audit report contains information to identify what activities were audited, time period audited, and the extent and nature of the auditing that was performed.

B. The audit objectives should be described in the "Purpose" section of the audit report.

C. The conditions found by the auditor are what actually exists (as compared and contrasted with what conditions should exist). The audit objectives are not part of the "Conditions" section of the audit report.

D. The objectives of the audit are not part of the "Criteria" section of the audit report. The criteria section of the audit report contains information on what conditions should exist, i.e., the standards, measures, or expectations used in evaluating audit findings, or "what should be" the conditions that the actual conditions are to be compared and contrasted with.

Question 36 - CMA 687 5-3 - Internal Auditing

Whether or not a real-time program contains adequate controls is most effectively determined by the use of

A. Audit software.
B. A tracing routine.
C. An integrated test facility.
D. A tagging routine.

A. Audit software enables auditors to access client data. It can select sample data from data files, check computations, and search the data files for unusual items. It does not, however, determine whether or not a real-time program contains adequate controls.

B. A tracing routine is used in auditing computer systems. Through use of an embedded program routine, certain transactions are electronically tagged with a tagging routine and then those transactions are traced through the system by means of a tracing routine. However, this would not be the most effective way to determine whether or not
a real-time program contains adequate controls.

C. An Integrated Test Facility (ITF) is normally used to audit large computer systems that use real-time processing. ITF involves the use of test data and the creation of fictitious entities, such as fictitious employees, fictitious vendors, fictitious products, and fictitious accounts, either within the master files of the computer system or as a separate, fictitious company. The test data are used to determine whether control procedures in a particular computer application are working properly; whether the computer is processing transactions correctly; whether all transaction files and master files are fully and correctly being updated; and whether program changes have been made correctly. In an ITF, the test data are processed along with real data. No one knows that the data being processed includes these fictitious entries to fictitious records. In this way, the auditor can be sure that the programs being checked are the same programs as those that are being used to process the real data.

D. A tagging routine is used in auditing computer systems. Through use of an embedded program routine, certain transactions are "tagged." This tagging creates an audit data file that documents the processing of the tagged transactions, as well as control checks on the tagged transactions. However, this would not be the most effective way to determine whether or not a real-time program contains adequate controls.

Question 37 - CMA Sample Q4-11 - Internal Auditing

Which one of the following statements concerning concurrent auditing techniques is not correct?

A. They allow faster detection of unauthorized transactions.
B. They allow monitoring a system on a continuous basis for fraudulent transactions.
C. They are standard components of generic software packages.
D. They are most useful in complex online systems in which audit trails have either become diminished or are very limited.

A. Concurrent auditing techniques typically use specialized programs with auditor-defined parameters that are applied to transactions during processing. The program uses analytical techniques and data mining to detect unusual patterns. If the program identifies unusual activities, it alerts the auditor, enabling the auditor to review and investigate the unusual transaction virtually immediately. Thus, concurrent auditing techniques allow faster detection of unauthorized transactions.

B. Concurrent auditing techniques typically use specialized programs with auditor-defined parameters that are applied to transactions during processing. The program uses analytical techniques and data mining to detect unusual patterns. If the program identifies unusual activities, it alerts the auditor, enabling the auditor to review and investigate the unusual transaction virtually immediately. Thus, concurrent auditing techniques do permit monitoring a system on a continuous basis for fraudulent transactions.

C. Concurrent auditing techniques are not standard components of generic software packages. Concurrent auditing techniques require the use of specialized programs with auditor-defined parameters that are applied to transactions during processing to detect unusual patterns.

D. Under real-time accounting systems, transactions are transmitted, processed, and accessed electronically. Thus, audit trails can easily become diminished or very limited. Concurrent auditing techniques, which use specialized programs with auditor-defined parameters that are applied to transactions during processing, are most useful in this kind of environment.

Question 38 - CIA 1187 I-44 - Internal Auditing

Which of the following individuals would normally not receive an internal auditing report related to a review of the purchasing cycle?

A. The independent external auditor.
B. The general auditor.
C. The chairman of the board of directors.
D. The director of purchasing.

A. The internal audit report should be distributed to everyone who has a direct interest in the audit. The independent external auditor would have a direct interest in the audit and thus should receive a copy of the report.

B. The audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit.

C. The audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The board of directors usually should receive a summary report.

D. The director of purchasing should properly receive an internal audit report related to a review of the purchasing cycle because the report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit.

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**Question 39 - CIA 591 II-2 - Internal Auditing**

Which of the following activities is outside the scope of internal auditing?

A. Ascertaining the extent to which objectives and goals have been established.
B. Evaluating controls over compliance with laws and regulations.
C. Assessing an operating department’s effectiveness in achieving stated organizational goals.
D. Safeguarding of assets.

A. Ascertaining the extent to which objectives and goals have been established is an internal audit activity.

B. Evaluating controls over compliance with laws and regulations is an internal auditing activity.

C. Assessing an operating department’s effectiveness in achieving stated organizational goals is an internal auditing activity.

D. The specific safeguarding of assets is the responsibility of management. However, from an internal auditing standpoint, internal auditors should evaluate and assess whether assets are safeguarded.

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**Question 40 - CIA 589 I-40 - Internal Auditing**

A purpose of the internal auditors' exit interview with appropriate levels of management is to

A. Obtain information to evaluate internal control.
B. Inform members of the board of engagement results.
C. Present the final engagement communication to the chief executive officer.
D. Generate commitment for appropriate managerial action.

A. Obtaining information to evaluate internal control is done at the beginning of an audit, not at the end.

B. It is a courtesy to review the report with the person or department being audited, so the auditee knows what is being sent to his or her supervisors and will not be surprised by the report. This review may also allow the auditee to identify any inaccuracies in the report. The internal auditor and the auditee are present at this meeting. The members of the board of directors are not present.
C. It is a courtesy to review the report with the person or department being audited, so the auditee knows what is being sent to his or her supervisors and will not be surprised by the report. This review may also allow the auditee to identify any inaccuracies in the report. The internal auditor and the auditee are present at this meeting. The chief executive officer is not present.

D. It is a courtesy to review the report with the person or department being audited, so the auditee knows what is being sent to his or her supervisors and will not be surprised by the report. This review may also allow the auditee to identify any inaccuracies in the report. The internal auditor and the auditee are present at this meeting, and one effect of the meeting should be to generate commitment from the auditee for appropriate corrective action.

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**Question 41 - CIA 587 I-43 - Internal Auditing**

When management agrees with a finding and has agreed to take corrective action, the appropriate treatment is to

A. Report that management has already taken corrective action.
B. Omit the finding and recommendation.
C. Include the finding and recommendation, irrespective of management's agreement.
D. Report that management has agreed to take corrective action.

A. The corrective action has not yet been taken, so it is incorrect to state that it has been taken.

B. When management agrees with a finding and has agreed to take corrective action, the audit report should include this agreement as one of the results of the audit.

C. The finding and recommendation should be included, but so should the fact that management has agreed to take corrective action.

D. When management agrees with a finding and has agreed to take corrective action, the audit report should include this agreement as one of the results of the audit.

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**Question 42 - CIA 1193 I-1 - Internal Auditing**

Internal auditing is a dynamic profession. Which of the following best describes the scope of internal auditing as it has developed to date?

A. Internal auditing has evolved to verifying the existence of assets and reviewing the means of safeguarding assets.
B. Internal auditing has evolved to evaluating all risk management, control, and governance systems.
C. Internal auditing involves evaluating compliance with laws, regulations, and contracts.
D. Internal auditing involves evaluating the effectiveness and efficiency with which resources are employed.

A. Internal auditing involves much more than just verifying the existence of assets and reviewing the means of safeguarding assets.

B. The Institute of Internal Auditors (IIA), the U.S. professional organization of internal auditors, has defined internal auditing as: "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

C. Internal auditing involves much more than just evaluating compliance with laws, regulations, and contracts.

D. Internal auditing involves much more than just evaluating the effectiveness and efficiency with which resources are employed.
Question 43 - CIA 593 I-37 - Internal Auditing

An operational audit report that deals with the scrap disposal function in a manufacturing company should address

A. The efficiency and effectiveness of the scrap disposal function and include any findings requiring corrective action.
B. Whether the scrap material inventory is reported as a current asset.
C. Whether the physical inventory count of the scrap material agrees with the recorded amount.
D. Whether the scrap material inventory is valued at the lower of cost or market.

A. An operational audit is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. Auditors will compare the results of the operations with a standard level of behavior or output that has been set. The focus of an operational audit is on efficiency, effectiveness and economy. The internal auditor will make recommendations about how to improve the process or operation.

B. An operational audit is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. How the scrap material inventory is reported on the financial statements is part of a financial statement audit, not an operational audit.

C. An operational audit is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. Whether the physical inventory count of the scrap material agrees with the recorded amount is part of a financial statement audit, not an operational audit.

D. An operational audit is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. Whether the scrap material inventory is valued at the lower of cost or market is part of a financial statement audit, not an operational audit.

Question 44 - CIA 593 I-11 - Internal Auditing

Shipments are made from the warehouse based on customer purchase orders. The matched shipping documents and purchase orders are then forwarded to the billing department for sales invoice preparation. The shipping documents are neither accounted for nor prenumbered. Which of the following substantive tests should be extended as a result of this control weakness?

A. Foot the sales register and trace the total to the general ledger.
B. Trace a sample of purchase orders to the related sales invoices.
C. Trace quantities and prices on the sales invoice to the customer purchase order and test extensions and footings.
D. Select bills of lading from the warehouse and trace the shipments to the related sales invoices.

A. Footing the sales register and tracing the total to the general ledger would not test to see whether all shipments are being billed.

B. Tracing a sample of purchase orders to the related sales invoices would not test to see whether all shipments are being billed.

C. Tracing quantities and prices on the sales invoice to the customer purchase order and testing extensions and footings would not test to see whether all shipments are being billed.

D. Since shipping documents are neither accounted for nor prenumbered, it is likely that some shipments will leave the warehouse without being billed. Selecting bills of lading from the warehouse and tracing the shipments to the related customer invoices is a test to see whether all shipments are being billed.

Question 45 - CIA 1194 I-64 - Internal Auditing

(c) HOCK international, page 20
During an engagement to review payments under a construction contract with a local firm, the internal auditor found a recurring monthly reimbursement for rent at a local apartment complex. Each reimbursement was authorized by the same project engineer. The internal auditor found no provision for payment of temporary living expenses in the construction contract. Discussion with the project engineer could not resolve the matter. The internal auditor should

A. Wait until the engineer is surrounded by plenty of witnesses and then inquire about the payments.
B. Call the engineer into a private meeting to confront the situation.
C. Complete the engagement as scheduled, noting the recurring reimbursement in the working papers.
D. Inform the chief audit executive.

A. Publicly raising the issue could subject the internal auditor or organization to a defamation suit.
B. Discussion with the project engineer did not resolve the matter.
C. The internal auditor found no provision for payment, so this could be an indication of fraud. Thus, the appropriate authorities within the organization should be informed.
D. When an internal auditor suspects wrongdoing, the appropriate authorities within the organization should be informed. The CAE has the responsibility to report immediately any incident of significant fraud to senior management and the board.

Question 46 - CIA 593 II-37 - Internal Auditing

An internal auditor has just completed an engagement and is in the process of preparing the final engagement communication. The observations in the final engagement communication should include

A. Statements concerning potential future events that may be helpful to the engagement client.
B. Statements of both fact and opinion developed during the course of the engagement.
C. Statements of opinion about the cause of an observation.
D. Pertinent factual statements concerning the control weaknesses uncovered during the course of the engagement.

A. The final engagement communication should contain observations that are objective and factual. A statement concerning potential future events is inappropriate.
B. The final engagement communication should contain observations that are objective and factual.
C. The final engagement communication should contain observations that are objective and factual. A statement of opinion about the cause of an observation is inappropriate.
D. The final engagement communication should contain observations that are objective and factual. Pertinent factual statements concerning the control weaknesses uncovered during the course of the engagement would be appropriately included.

Question 47 - CIA 594 I-27 - Internal Auditing

Assume your company is considering purchasing a small toxic waste disposal company. As internal auditors, you are part of the team doing a due diligence review for the acquisition. Your scope (as auditors) would most likely not include

A. Analysis of the company's compliance with, and disclosure of, loan covenants.
B. An evaluation of the merit of lawsuits currently filed against the waste company.
C. Assessment of the efficiency of the waste company's operations and profitability.
D. A review of the purchased company's procedures for acceptance of waste material and comparison with legal requirements.

(c) HOCK international, page 21
A. A due diligence engagement is an engagement to confirm company records, both financial and those of ownership of property, utilized especially when a unit is being acquired, merged or sold. Analysis of the target company's compliance with, and disclosure of, loan covenants is appropriate in a due diligence review by auditors.

B. A due diligence engagement is an engagement to confirm company records, both financial and those of ownership of property, utilized especially when a unit is being acquired, merged or sold. An auditor would not have the legal expertise to evaluate the merit of lawsuits currently filed against the target company.

C. A due diligence engagement is an engagement to confirm company records, both financial and those of ownership of property, utilized especially when a unit is being acquired, merged or sold. Assessment of the efficiency of the waste company's operations and profitability is appropriate in a due diligence review by auditors.

D. A due diligence engagement is an engagement to confirm company records, both financial and those of ownership of property, utilized especially when a unit is being acquired, merged or sold. A review of the target company's compliance with legal requirements for acceptance of waste material is appropriate in a due diligence review by auditors.

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**Question 48 - CIA 1192 I-44 - Internal Auditing**

Internal audit reports should contain the purpose, scope, and results. The audit results should contain the criteria, condition, effect, and cause of the finding. The cause can best be described as

A. Resultant evaluations of the effects of the findings.
B. The risk or exposure because of the condition found.
C. Factual evidence that the internal auditor found.
D. Reason for the difference between the expected and actual conditions.

A. Resultant evaluations of the effects of the findings are not the cause of the finding.
B. The risk or exposure because of a condition found is not the cause of the finding.
C. Factual evidence is not the cause of the finding.
D. The reason for difference between expected conditions and actual conditions is the cause of the finding.

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**Question 49 - CIA 593 I-18 - Internal Auditing**

During the preliminary survey phase of an audit of the organization's production cycle, management stated that the sale of scrap was well controlled. Evidence to verify that assertion can best be gained by

A. Interviewing persons responsible for collecting and storing the scrap.
B. Comparing current revenue from scrap sales with that of prior periods.
C. Comparing current revenue from scrap sales with industry norms.
D. Comparing the quantities of scrap expected from the production process with the quantities sold.

A. Interviewing persons responsible for collecting and storing scrap will not verify that sale of scrap is well controlled, only that handling of scrap prior to its sale is well controlled.
B. Comparing current revenue from scrap sales with that of prior periods will not verify that sale of scrap is well controlled.
C. Comparing current revenue from scrap sales with industry norms will not verify that sale of scrap is well controlled.
D. Comparing the quantities of scrap expected from the production process with quantities sold should verify whether sale of scrap is well controlled. If the quantities of scrap sold are approximately the same as quantities produced, the sale of the scrap is well controlled.
**Question 50 - CIA 1194 I-61 - Internal Auditing**

An internal auditor reports directly to the board of directors. The auditor discovered a material cash shortage. When questioned, the person responsible explained that the cash was used to cover sizable medical expenses for a child and agreed to replace the funds. Because of the corrective action, the internal auditor did not inform management. In this instance, the auditor

A. Has organizational independence, but not objectivity.
B. Does not have either organizational independence or objectivity.
C. Does not have organizational independence but has objectivity.
D. Has both organizational independence and objectivity.

**A. Since the internal auditor reports directly to the board of directors, the auditor does have organizational independence. However, not reporting the misappropriation of funds is an indication of a lack of objectivity.**

B. Since the internal auditor reports directly to the board of directors, the auditor does have organizational independence.

C. The auditor reports directly to the board of directors, and thus the auditor does have organizational independence. However, not reporting the misappropriation of funds is an indication of a lack of objectivity.

D. Not reporting the misappropriation of funds is an indication that the auditor does not have objectivity.

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**Question 51 - CIA 594 I-57 - Internal Auditing**

A director of internal auditing has to determine how an organization can be divided into auditable activities. Which of the following is an auditable activity?

A. A procedure.
B. An account.
C. A system.
D. All of the answers given.

A. While a procedure is an auditable activity, it is not the only auditable activity in the list.
B. While an account is an auditable activity, it is not the only auditable activity in the list.
C. While a system is an auditable activity, it is not the only auditable activity in the list.
D. Procedures, systems, and accounts are all auditable activities.

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**Question 52 - CIA 1190 I-42 - Internal Auditing**

Summary written audit reports are ordinarily intended for

A. Local operating management.
B. Independent external auditors only.
C. High-level management and/or the audit committee.
D. Review by other internal auditors only.

A. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report,

(c) HOCK international, page 23
persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. A summary audit report would not contain enough detail for local operating management.

B. The audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. Independent external auditors may be included in the distribution list for the full report, as they would have a direct interest in the audit. However, no audit report, summary or otherwise, is ever distributed to independent external auditors only.

C. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. High-level management and/or the audit committee usually should receive a summary report.

D. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. No audit report, summary or otherwise, is ever reviewed by other internal auditors only.

Question 53 - CIA 588 II-15 - Internal Auditing

The effectiveness of an audit assignment is related to the findings and the action taken on those findings. Which of the following activities contributes to assignment effectiveness?

A. Having budget revisions approved by the project supervisor.
B. Adhering to a time budget.
C. Conducting an exit interview with auditees.
D. Preparing weekly time reports.

A. Having budget revisions approved by the project supervisor is important for audit efficiency, but it does not contribute to assignment effectiveness.
B. Adhering to a time budget is important for audit efficiency and economy, but it does not contribute to assignment effectiveness.
C. It is a courtesy to review the report with the person or department being audited, so the auditee knows what is being sent to his or her supervisors and will not be surprised by the report. This review may also allow the auditee to identify any inaccuracies in the report. The internal auditor and the auditee are present at this meeting, and one effect of the meeting should be to generate commitment from the auditee for appropriate corrective action.
D. Preparing weekly time reports is important for audit efficiency, but it does not contribute to assignment effectiveness.

Question 54 - CIA 593 I-36 - Internal Auditing

An engagement performed at an organization's payroll department has revealed various control weaknesses. These weaknesses along with recommendations for corrective actions were addressed in the final engagement communication. This communication should be most useful to the organization's

A. Treasurer.
B. Audit committee of the board of directors.
C. President.
D. Payroll manager.
A. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The treasurer is not responsible for the payroll function.

B. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The audit committee of the board of directors is not responsible for the payroll function.

C. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The president is not responsible for the payroll function.

D. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The payroll manager has responsibility for the payroll function and thus this communication should be most useful to that person.

Question 55 - CMA 695 4-30 - Internal Auditing

In auditing computer-based systems, the integrated test facility

A. Is a set of specialized software routines that are designed to perform specialized audit tests and store audit evidence.
B. Uses an audit log to record transactions and data having special audit significance during regular processing runs.
C. Is a concurrent audit technique that establishes a special set of dummy master files and enters transactions to test the programs using the dummy files during regular processing runs.
D. Allows the auditor to assemble test transactions and run them through the computer system to test the integrity of controls on a sample data base.

A. An integrated test facility is not a set of specialized software routines.
B. An integrated test facility does not use an audit log to record transactions and data having special audit significance during regular processing runs.
C. An integrated test facility (ITF) involves the use of test data but also the creation of fictitious entities, such as fictitious employees, fictitious vendors, fictitious products, and fictitious accounts, within the master files of the computer system. Or alternatively, a separate, fictitious company may be used. The major difference between test data and an ITF is that the test data in an ITF are processed along with real data, which makes it a concurrent audit technique. No one knows that the data being processed includes these fictitious entries to fictitious records. In this way, the auditor can be sure that the programs being checked are the same programs as those that are being used to process the real data. The difficulty with using the ITF approach is that the fictitious transactions have to be excluded from the normal outputs of the system in some way. Careful planning is required to make sure that the ITF data do not become mixed in with the real data, corrupting the real data.
D. An integrated test facility involves more than just test data.

Question 56 - CIA 589 II-41 - Internal Auditing

The internal auditing department has just completed an audit report that outlines several deficiencies found in the company's product distribution channels. Which one of the following persons should receive a copy of the audit report?

A. Distribution managers
B. Accounting staff
C. Personnel
D. Financial analyst
E. Sales representatives

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report to ensure maximum benefits for the company?

A. The sales representative.
B. The advertising manager.
C. The marketing director.
D. The treasurer.

A. The audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. A sales representative is not in this group and thus should not receive a copy of the audit report.

B. The audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The advertising manager is not in this group and thus should not receive a copy of the audit report.

C. The audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The marketing director is the head of the unit that was audited and thus should receive a copy of the audit report.

D. The audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The treasurer is not in this group and thus should not receive a copy of the audit report.

Question 57 - CIA 1191 I-17 - Internal Auditing

An operational engagement relating to the production function includes a procedure to compare actual costs with standard costs. The purpose of this engagement procedure is to

A. Measure the effectiveness of the standard cost system.
B. Assist management in its evaluation of effectiveness and efficiency.
C. Determine the accuracy of the system used to record actual costs.
D. Assess the reasonableness of standard costs.

A. An operational engagement is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. The purpose of an operational engagement is to assist management in its evaluation of effectiveness and efficiency. A comparison between actual costs and standard costs will not necessarily fulfill that purpose.

B. An operational engagement is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. The purpose of an operational engagement is to assist management in its evaluation of effectiveness and efficiency. A comparison between actual costs and standard costs can be used to fulfill that purpose.

C. An operational engagement is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. The purpose of an operational engagement is to assist management in its evaluation of effectiveness and efficiency. A comparison between actual costs and standard costs will not necessarily fulfill that purpose.

D. An operational engagement is concerned with examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. The purpose of an operational engagement is to assist management in its evaluation of effectiveness and efficiency. A comparison between actual costs and standard costs will not necessarily fulfill that purpose.
**Question 58 - CIA 592 I-44 - Internal Auditing**

While performing an operational audit of the firm’s production cycle, an internal auditor discovers that, in the absence of specific guidelines, some engineers and buyers routinely accept vacation trips paid by certain of the firm’s vendors. Other engineers and buyers will not accept even a working lunch paid for by a vendor. Which of the following actions should the internal auditor take?

A. Formally recommend that the organization establish a corporate code of ethics. Guidelines of acceptable conduct, within which individual decisions may be made, should be provided.
B. Issue a formal deficiency report naming the personnel who accept vacations but make no recommendations. Corrective action is the responsibility of management.
C. Informally counsel the engineers and buyers who accept the vacation trips. This helps prevent the possibility of kickbacks, while preserving good auditor-auditee relations.
D. None. The engineers and buyers are professionals. It is inappropriate for an internal auditor to interfere in what is essentially a personal decision.

**Question 59 - CIA 587 I-44 - Internal Auditing**

Which of the following is a possible disadvantage when the draft engagement communication is provided to local management for review and comment?

A. Genuine consideration for the engagement client will be demonstrated.
B. Discussion of the report might center unduly on words rather than on the substantive issues.
C. The engagement client may take corrective action before the final communication is issued.
D. The possibility of the engagement client rebutting observations and recommendations would be considered an advantage.

**Question 60 - CIA 1196 III-35 - Internal Auditing**

Which of the following is not a true statement about the relationship between internal auditors and external auditors?

A. Oversight of the work of external auditors is the responsibility of the chief audit executive.
B. There may be an exchange of audit reports and management letters between internal and external auditors.
C. Internal auditors may provide audit programs and working papers to external auditors.
D. There may be periodic meetings between internal and external auditors to discuss matters of mutual interest.

**A. It is not the responsibility of the CAE to oversee the work of the external auditors. The audit committee of the board has this oversight responsibility.**

B. Exchange of internal audit communications and external auditors' management letters is necessary as part of the coordination between internal auditors and external auditors.

C. Coordination between internal auditors and external auditors may require internal auditors to provide their engagement work programs and working papers to external auditors.

D. In order to assure timely and efficient completion of the work, sufficient meetings should be scheduled between internal and external auditors.

**Question 61 - CIA 1194 I-10 - Internal Auditing**

An internal auditor who suspects fraud should

A. Interview those who have been involved in the control of assets.
B. Identify the employees who could be implicated in the case.
C. Determine that a loss has been incurred.
D. Recommend whatever investigation is considered necessary under the circumstances.

A. When an internal auditor suspects fraud, it is recommended that he or she should determine the possible effects and discuss the matter with the appropriate level of management, who should then initiate an investigation.

B. When an internal auditor suspects fraud, it is recommended that he or she should determine the possible effects and discuss the matter with the appropriate level of management, who should then initiate an investigation.

C. When an internal auditor suspects fraud, it is recommended that he or she should determine the possible effects and discuss the matter with the appropriate level of management, who should then initiate an investigation.

D. When an internal auditor suspects fraud, it is recommended that he or she should determine the possible effects and discuss the matter with the appropriate level of management, who should then initiate an investigation.

**Question 62 - CIA 593 I-39 - Internal Auditing**

The internal audit activity has recently completed an engagement to evaluate the organization's accounts payable function. The chief audit executive (CAE) decided to issue a summary in conjunction with the final engagement communication. Who is most likely to receive the summary only?

A. Controller.
B. External auditor.
C. Accounts payable manager.
D. Audit committee of the board.

A. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The controller is responsible for the accounting function and is therefore a person to whom the accounts payable manager will respond about the report.

B. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report,
persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The accounts payable manager is the person responsible for the accounts payable operation and the person who will need to take corrective action as a result of the audit. The external auditor is a person who has a direct interest in the internal audit.

C. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The accounts payable manager is the person responsible for the accounts payable operation and the person who will need to take corrective action as a result of the audit.

D. The full audit report should be distributed to everyone who has a direct interest in the audit. This includes the executive or executives to whom internal audit reports, the person to whom people will reply about the report, persons responsible for the activities or operations audited, and people who will need to take corrective action as a result of the audit. The audit committee of the board can appropriately receive a summary report.

**Question 63** - CIA 1187 I-41 - Internal Auditing

The primary reason for having written formal internal audit reports is to

A. Direct senior management to corrective actions.
B. Record findings and recommended courses of action.
C. Provide a formal means by which the external auditor assesses potential reliance on the internal audit department.
D. Provide an opportunity for auditee response.

A. The responsibility of internal auditors is to compare “what is” with “what should be” and report to management their findings, along with suggestions and recommendations for improvement. The internal auditor has no authority to direct senior management to take corrective action.

B. It is the responsibility of internal auditors to compare “what is” with “what should be” and report to management their findings, along with suggestions and recommendations for improvement. This is done by means of a written, formal internal audit report.

C. While the external auditors may review internal audit reports in order to determine their potential reliance on the internal auditors for their independent audit, this is not the primary reason for having written, formal internal audit reports.

D. An audit report does not need to be a written, formal report in order for the auditee to provide a response.

**Question 64** - CIA 593 I-38 - Internal Auditing

An internal auditor has uncovered illegal acts committed by a member of senior management. According to the Standards, such information

A. Should be excluded from the internal auditor’s report and discussed orally with the senior manager.
B. Must be immediately reported to the appropriate local authorities.
C. May be disclosed in a separate report and distributed to all senior management.
D. May be disclosed in a separate report and distributed to the company’s audit committee of the board of directors.

A. Illegal acts by a member of senior management should be reported immediately to the manager’s superior and to the company’s audit committee of the board of directors. The auditor should not discuss the matter with the senior manager who has committed the illegal acts.

B. Internal auditors are responsible to report illegal acts and other matters to their management and board of directors, but not to local authorities. If the company is publicly held, the matter will need to be reported to
appropriate regulatory authorities.

C. Information about illegal acts committed by a member of senior management should be reported to the senior manager's superior and to the board of directors, but not distributed to all senior management.

D. Information about illegal acts committed by a member of senior management should be reported immediately to the senior manager's superior and to the audit committee of the board of directors.

Question 65 - CIA 1190 II-11 - Internal Auditing

The chief executive officer wants to know whether the purchasing function is properly meeting its charge to "purchase the right materials at the right time in the right quantities." Which of the following types of engagements addresses this request?

A. A financial engagement relating to the purchasing department.
B. A full-scope engagement relating to the manufacturing operation.
C. A compliance engagement relating to the purchasing function.
D. An operational engagement relating to the purchasing function.

A. The purpose of a financial statement audit is to evaluate the assertions made by management on the organization's financial statements and to issue an opinion on the fairness of the statements. A financial engagement would not be able to determine whether the purchasing function is properly meeting its charge to "purchase the right materials at the right time in the right quantities."

B. While a full-scope engagement relating to the manufacturing operation would include determining whether the purchasing function is properly meeting its charge to "purchase the right materials at the right time in the right quantities," it would encompass much more than that.

C. A compliance engagement determines to what degree an organization is operating in an orderly way, effectively and visibly conforming to certain specific requirements of its policies, procedures, standards, or laws and governmental regulations. A compliance engagement relating to the purchasing function would not be able to determine whether the purchasing function is properly meeting its charge to "purchase the right materials at the right time in the right quantities."

D. An operational audit involves examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities.

Question 66 - CIA 592 I-40 - Internal Auditing

One objective of an audit of the purchasing function is to determine the cost of late payment of invoices containing sales discounts. The appropriate population from which a sample would be drawn is the file of

A. Paid vendor invoices.
B. Canceled checks.
C. Receiving reports.
D. Purchase orders.

A. Paid vendor invoices would show the invoice date, the amount invoiced, any discount offered for prompt payment, amount paid and date paid.

B. Canceled checks would give the date and the amount of payment. They would not indicate whether the vendor offered a discount or whether payment was made within the discount period.

C. Receiving reports would give the date an item was received and the quantity that was received. They would not show whether the vendor offered a discount or whether payment was made within the discount period.
D. Purchase orders would give the date an item was ordered, the quantity ordered, and the anticipated price. They would not show whether the vendor offered a discount or whether payment was made within the discount period.

**Question 67 - CIA 1191 I-10 - Internal Auditing**

During an operational engagement, the internal auditors compare the current staffing of a department with established industry standards to

A. Evaluate the adequacy of the established internal controls for the department.
B. Determine whether the department has complied with all laws and regulations governing its personnel.
C. Identify bogus employees on the department's payroll.
D. Assess the current performance of the department and make appropriate recommendations for improvement.

A. An operational audit does involve examining and evaluating systems of internal control. However, the internal auditors would not compare the current staffing of a department with established industry standards for the purpose of evaluating the adequacy of the established internal controls for the department. There is no connection between the two things.

B. An operational audit involves examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. The focus of an operational audit is on efficiency, effectiveness and economy. Thus in an operational audit, the internal auditors would not compare the current staffing of a department with established industry standards for the purpose of determining whether the department has complied with all laws and regulations governing its personnel. Not only would the first not achieve the second, but determining whether the department has complied with laws and regulations in its personnel function would be the focus of a compliance audit, not an operational audit.

C. An operational audit involves examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. Thus the focus would not be on identifying bogus employees on the department's payroll.

D. An operational audit involves examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. The focus of an operational audit is on efficiency, effectiveness and economy. Thus, the internal auditors would compare the current staffing of a department with established industry standards in order to assess the current performance of the department and make appropriate recommendations for improvement.

**Question 68 - CIA 592 I-16 - Internal Auditing**

Determining that audit objectives have been met is part of the overall supervision of an audit assignment and is the ultimate responsibility of the

A. Internal auditing supervisor.
B. Chief Audit Executive
C. Staff internal auditor.
D. Audit committee.

A. The overall supervision of an audit assignment is not the ultimate responsibility of an internal auditing supervisor.

B. The overall supervision of an audit assignment is the ultimate responsibility of the chief audit executive (CAE) director of internal auditing.

C. The overall supervision of an audit assignment is not the ultimate responsibility of the staff internal auditor.

D. The overall supervision of an audit assignment is not the ultimate responsibility of the audit committee.
Question 69 - CIA 1192 II-49 - Internal Auditing

Internal auditors are responsible for reporting fraud to senior management and the board when

A. Suspicious activities have been reported to the internal auditors.
B. Irregular transactions have been identified and are under investigation.
C. The review of all suspected fraud-related transactions is complete.
D. The incidence of significant fraud has been established to a reasonable certainty.

A. Reporting of suspicious acts should alert an auditor to do some preliminary investigating. However, it would not be appropriate to make a report to management and the board at that stage.
B. Until the irregular transactions have been investigated further, it would not be appropriate to make a report to management and the board.
C. Reporting to management and the board should occur when the incidence of significant fraud has been established to a reasonable certainty.
D. When an internal auditor suspects fraud, he or she should determine the possible effects and discuss the matter with the appropriate level of management, who should then initiate an investigation. However, the internal auditor should have solid reasons to suspect that fraud has taken place before reporting it to management and the board.

Question 70 - CIA 590 II-35 - Internal Auditing

Interim reports are issued during an audit to

A. Explain the purpose of the audit.
B. Eliminate the need for a final report.
C. Communicate information requiring immediate attention.
D. Define the scope of the audit so the final report can be brief.

A. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one. An interim report is not used to explain the purpose of the audit. The purpose of an audit is determined in discussions with the management of the auditee prior to the audit and is detailed in the final audit report.
B. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one. An interim report does not eliminate the need for a final report.
C. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one.
D. An interim report should be issued during the audit process whenever there is something that needs to be addressed immediately, if there is a need to change the scope of the audit, or simply to keep people informed when the audit process is a long one. It is not used to define the scope of the report, and it does not shorten the length of the final audit report.

Question 71 - CIA 588 II-45 - Internal Auditing

To enhance communications with top management, some internal auditing activities include a summary report with
each written audit report. What information should be included in such a summary report?

A. Highlights of the audit results.
B. Internal auditing’s assessment of the adequacy of internal controls.
C. The same information as the written report but in diagram form.
D. Only that information needed to resolve the disagreements between the auditees and internal auditing.

A. Highlights of the audit results constitutes a summary of the audit report.
B. An assessment of the adequacy of internal controls is not a summary.
C. The same information as is contained in the written report in diagram form is not a summary.
D. Information to resolve disagreements between the auditees and internal auditing is not a summary.

Question 72 - CIA 593 I-19 - Internal Auditing

To control daily operating costs, an organization decreased the number of times a messenger service was used each day. Despite those measures, the monthly bill continued to increase. What procedure should the internal auditor use to detect whether improper services were being billed?

A. Scan ledger accounts and messenger invoices.
B. Observe daily use of the messenger service.
C. Reconcile a sample of messenger invoices to pickup receipts.
D. Test the mathematical accuracy of a sample of messenger invoices.

A. Scanning ledger accounts and messenger invoices will not detect whether the company is being billed by the messenger service for services not received.
B. While observing daily use of the messenger service might detect whether the company is being billed by the messenger service for services not received, it is not a cost-effective means of testing because it would require too much time in observation.
C. Reconciling a sample of messenger invoices to pickup receipts should detect whether the company is being billed by the messenger service for services not received.
D. Testing the mathematical accuracy of a sample of messenger invoices will not detect whether the company is being billed by the messenger service for services not received.

Question 73 - CIA 591 I-17 - Internal Auditing

The personnel department receives an edit listing of payroll changes processed at every payroll cycle. If it does not verify the changes processed, the result could be

A. Undetected errors in payroll rates for new employees.
B. Inaccurate Social Security deductions.
C. Labor hours charged to the wrong account in the cost reporting system.
D. Employees not being asked if they want to contribute to the company pension plan.

A. If a new employee’s payroll rate is not verified after processing, there could be an undetected error in that employee’s payroll rate. The personnel department is responsible for entering new employees into the system and entering their pay rates. Therefore, the personnel department should verify that data on every new employee has been entered correctly.

B. Social Security deductions would be correct for any given pay rate because the Social Security deduction is a percentage of an employee’s pay. However, if a pay rate were incorrect, the Social Security deduction would be
incorrect as well.

C. Labor hours would probably not be charged to the wrong account in the cost reporting system as a result of an error in processing changes, because the labor hours would normally come from the time reporting system.

D. Checking an edit listing of payroll changes would not give any indication about whether employees have or have not been asked if they want to contribute to the company pension plan.

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**Question 74** - CIA 586 II-8 - Internal Auditing

The chief audit executive (CAE) uncovers a significant fraudulent activity that appears to involve the executive vice president to whom the CAE reports. Which of the following best describes how the CAE should proceed?

A. Conduct an investigation to ascertain whether the executive vice president is involved in the fraudulent activity.
B. Notify regulatory authorities and police.
C. Report the facts to the chief executive officer and the audit committee.
D. Interview the executive vice president to obtain essential evidence.

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**Question 75** - CIA 593 I-5 - Internal Auditing

The status of the internal audit activity should be free from the effects of irresponsible policy changes by management. The most effective way to assure that freedom is to

A. Establish an audit committee within the board.
B. Adopt policies for the functioning of the internal audit activity.
C. Develop written policies and procedures to serve as standards of performance for the internal audit activity.
D. Have the internal audit charter approved by the board.

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Question 76 - CIA 589 I-38 - Internal Auditing

According to the Standards, audit findings are the result of:

A. Analyzing differences between organizational and departmental objectives.
B. The internal auditor's conclusions (opinions).
C. Comparing what should be with what is.
D. Determining the impact on the organization of what should be.

A. Audit findings are not the result of analyzing differences between organizational and departmental objectives.
B. Audit findings are not the result of the internal auditor's conclusions (opinions).
C. Audit findings are the result of internal auditors having compared "what is" with "what should be." The audit findings are to be reported management along with suggestions and recommendations for improvement.
D. Audit findings are not the result of determining the impact on the organization of what should be.

Question 77 - CIA 595 I-5 - Internal Auditing

An auditor reviews and adapts a systems flowchart to understand the flow of information in the processing of cash receipts. Which of the following statements is true regarding such flowcharts? The flowcharts:

A. Are a good guide to potential segregation of duties.
B. Show specific control procedures used, such as edit tests and batch control reconciliations.
C. Show only computer processing, not manual processing.
D. Are generally kept up to date for systems changes.

A. A systems flowchart shows the different departments and functions involved in a process and documents manual processes as well as computer processes and the input, output and processing steps. Since it shows the different departments and functions involved, this type of flowchart shows the segregation of duties more easily than would a program flowchart.

B. A systems flowchart shows the different departments and functions involved in a process and documents manual processes as well as computer processes and the input, output and processing steps. A program flowchart depicts the specific steps in a process and how they will be executed. Thus, a program flowchart, not a systems flowchart, would show the specific control procedures used.

C. A systems flowchart documents manual processes as well as computer processes.

D. Flowcharts are not generally kept up to date in between audits. The auditor usually needs to inquire and document any changes that have occurred in processing since the last audit and update the flowchart.

Question 78 - CIA 1192 I-16 - Internal Auditing

To test whether debits to accounts receivable represent valid transactions, the auditor should compare items in the

A. Cash receipts documentation with the accounts receivable ledger.
B. Accounts receivable ledger with sales documentation.
C. Sales journal with the accounts receivable ledger.
D. Accounts receivable ledger with the cash receipts journal.

A. Comparing cash receipts documentation with the accounts receivable ledger would verify that cash payments from customer had been properly recorded as credits to accounts receivable. However, it would not test whether debits to accounts receivable represent valid sales transactions.

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B. Sales documentation (i.e., customer purchase order, shipping documents) compared with debits to the accounts receivable ledger would test whether debits to accounts receivable represent valid sales transactions.

C. Although comparing items in the sales journal with the accounts receivable ledger would test whether credit sales had been properly recorded in the accounts receivable ledger, it would not test whether debits to accounts receivable represent valid sales transactions.

D. Comparing the accounts receivable ledger with the cash receipts journal would verify that cash receipts had been recorded as credits to accounts receivable. However, it would not test whether debits to accounts receivable represent valid sales transactions.

Question 79 - CIA 592 II-21 - Internal Auditing

Which of the following is an essential factor in evaluating the sufficiency of evidence? The evidence must

A. Be based on references that are considered reliable.
B. Be convincing enough for a prudent person to reach the same decision.
C. Bear a direct relationship to the finding and include all of the elements of a finding.
D. Be well documented and cross-referenced in the working papers.

A. If evidence is sufficient, it means that enough information has been gathered to enable another person to come to the same conclusions as the auditor. Information that is based on references that are considered reliable is competent evidence, but that does not constitute sufficiency.

B. If evidence is sufficient, it means that enough information has been gathered to enable another person to come to the same conclusions as the auditor.

C. If evidence is sufficient, it means that enough information has been gathered to enable another person to come to the same conclusions as the auditor. Information that bears a direct relationship to the finding and includes all of the elements of a finding is relevant evidence, but that does not constitute sufficiency.

D. If evidence is sufficient, it means that enough information has been gathered to enable another person to come to the same conclusions as the auditor. Documentation and cross-referencing, while important, do not constitute sufficiency.

Question 80 - CIA 592 II-1 - Internal Auditing

A determination of cost savings is most likely to be an objective of a(n)

A. Operational engagement.
B. Financial engagement.
C. Compliance engagement.
D. Program-results engagement.

A. An operational engagement focuses on examining and evaluating systems of internal control, overall company operations, and the quality of performance in carrying out assigned responsibilities. Thus a determination of cost savings will most likely be an objective of an operational engagement.

B. A financial engagement focuses on the safeguarding of assets and the reliability and integrity of the financial statements. Thus a determination of cost savings would not be an objective of a financial engagement.

C. A compliance engagement is concerned with determining to what degree an organization is operating in an orderly way, effectively and visibly conforming to certain specific requirements of its policies, procedures, standards, or laws and governmental regulations. Thus a determination of cost savings would not be an objective of a
compliance engagement.

D. A program-results engagement is concerned with evaluating the accomplishment of objectives for a specific program. Thus a determination of cost savings would not be an objective of a program-results engagement.

Question 81 - CIA 1190 I-13 - Internal Auditing

An internal auditor would most likely judge a misstatement in an account balance to be material if it involves

A. A related party.
B. A large percentage of net income.
C. An unverified routine transaction.
D. An unusual transaction for the company.

A. Although a transaction with a related party would indicate increased audit risk, the existence of a related party transaction does not, by itself, mean that the amount is material.

B. A misstatement that amounts to a large percentage of net income is material, regardless of any other circumstances.

C. Although an unverified routine transaction would indicate increased audit risk, the existence of an unverified routine transaction does not, by itself, mean that the amount is material.

D. Although an unusual transaction would indicate increased audit risk, the existence of an unusual transaction does not, by itself, mean that the amount is material.

Question 82 - CIA 1193 II-13 - Internal Auditing

Senior management has requested a compliance audit of the organization's employee benefits package. Which of the following is considered the primary engagement objective by both the chief audit executive and senior management?

A. The level of organizational contributions is adequate to meet the program’s demands.
B. Individual programs are operating in accordance with contractual requirements and government regulations.
C. Benefit payments, when appropriate, are accurate and timely.
D. Participation levels support continuation of individual programs.

A. The level of organizational contributions is not the primary objective of a compliance audit of an organization's employee benefits, although it would be included in such an audit.

B. The purpose of a compliance audit is to determine to what degree an organization is operating in an orderly way, effectively and visibly conforming to certain specific requirements of its policies, procedures, standards, or laws and governmental regulations. Thus, determination of whether individual programs are operating in accordance with contractual requirements and government regulations is an appropriate objective for a compliance audit of employee benefits.

C. Determination of whether benefit payments are accurate and timely is not the primary objective of a compliance audit of employee benefits, although it would be included in such an audit.

D. A determination of whether participation levels support continuation of individual employee benefit programs is not the primary objective of a compliance audit of employee benefits, although it would be included in such an audit.

Question 83 - CIA 592 I-45 - Internal Auditing

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As an internal auditor for a multinational chemical producer, you have been assigned to an engagement at a local plant. This plant is similar in age, siting, and construction to two other plants owned by the same organization that have been recently cited for discharge of hazardous wastes. In addition, you are aware that chemicals manufactured at the plant release toxic by-products. Assume that you have evidence that the plant is discharging hazardous wastes. As a certified internal auditor (CIA), what is the appropriate communication requirement in this situation?

A. Issue an interim engagement communication to the appropriate levels of management.
B. Ignore the issue because the regulatory inspectors are better qualified to assess the danger.
C. Send a copy of your engagement communication to the appropriate regulatory agency.
D. Note the issue in your working papers but do not report it.

A. Whenever a problem that requires immediate attention is discovered in an internal audit, an oral report or interim written report should be issued immediately to management, alerting them to the problem. In this case, the problem is a violation of a law.
B. An internal auditor should evaluate controls relating to compliance with laws, regulations, and contracts.
C. An internal auditor is not responsible for submitting a copy of the internal engagement communication to regulatory authorities.
D. This is a violation of a law, and it needs to be reported immediately to management in either an oral report or an interim report.

Question 84 - CIA 589 II-44 - Internal Auditing

A Certified Internal Auditor (CIA), employed by a large department store, performed an audit of the store’s cash function. Which of the following actions would be deemed lacking in due professional care?

A. A flowchart of the entire cash function was developed but only a sample of transactions were tested.
B. The report included a well-supported recommendation for the reduction in staff although it was known that such a reduction would adversely impact morale.
C. The auditor informed appropriate authorities within the organization about suspected wrongdoing. No report was made to external authorities.
D. Because of a highly developed system of internal controls over the cash function, the audit report assured top management that no irregularities existed.

A. It is appropriate to select a sample of transactions to test.
B. If an internal auditor detects inefficiency due to overstaffing, it is appropriate to include it in the report.
C. An auditor is not responsible to report suspected wrongdoing to external authorities.
D. It is not possible for an auditor to state with absolute assurance that no irregularities exist.

Question 85 - CMA 1283 3-15 - Internal Auditing

For an internal audit department to be considered as a relevant internal control by the external auditor, the internal auditor must

A. Perform operational audits.
B. Use statistical sampling procedures.
C. Be cost effective.
D. Be independent of the accounting function.

A. Whether or not an internal audit department performs operational audits has nothing to do with its relevancy as an
internal control.

B. Statistical sampling procedures are one type of procedure performed by an auditor. They have nothing to do with whether an external auditor would consider the internal audit department as a relevant internal control.

C. Cost effectiveness has nothing to do with relevancy as an internal control.

D. For an external auditor to consider an internal audit department to be a relevant internal control, it must be independent of the accounting function. The chief internal auditor function should report to the board of directors or to a member of senior management outside of the accounting function.