

# DUMPS ARENA

## Practice of Internal Auditing

IIA IIA-CIA-Part2

Version Demo

Total Demo Questions: 20

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## Topic Break Down

Topic	No. of Questions
Topic 1, New Update	144
Topic 2, Volume A	99
Topic 3, Volume B	100
Topic 4, Volume C	101
Topic 5, Volume D	99
Topic 6, Volume E	205
<b>Total</b>	<b>748</b>

**QUESTION NO: 1**

Management has taken immediate action to address an observation received during an audit of the organization's manufacturing process. Which of the following is true regarding the validity of the observation closure?

- A. Valid closure requires evidence that ensures the corrected process will function as expected in the future.
- B. Valid closure requires the client to address not only the condition, but also the cause of the condition.
- C. Valid closure of an observation ensures it will be included in the final engagement report.
- D. Valid closure requires assurance from management that the original problem will not recur in the future.

**ANSWER: B****Explanation:**

Reference: [https://elearn.iaa.org.au/pluginfile.php/20449/mod\\_resource/content/1/Sawyers%20-%20Chapter%2013.pdf](https://elearn.iaa.org.au/pluginfile.php/20449/mod_resource/content/1/Sawyers%20-%20Chapter%2013.pdf)

**QUESTION NO: 2**

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

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

**ANSWER: A****QUESTION NO: 3**

Which two of the following considerations must an internal auditor take into account while planning an audit of an accounting system/application that has been in use for the last five years?

- The level and manner of linkages between the business' mission, objectives, and structure and the accounting system/application.
- Presence or absence of computerized and manual controls that address risks.
- Identification of risks at the application level, e.g. availability and security of the system.
- Testing of the system/application for bugs and errors.

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

**ANSWER: B**

#### **QUESTION NO: 4**

Due to the expanded role of internal audit in the organization, the chief audit executive (CAE) of a construction company decides to employ the services of an outsourced audit service provider to augment the internal audit staff. What does the CAE need to consider in determining whether the outsourced audit service provider possesses the necessary knowledge, skills and other competencies to perform an audit engagement?

- A. Specific matters expected to be covered in the engagement communications.
- B. The financial interest that the external service provider may have in the organization.
- C. The extent of other ongoing services the external service provider may be performing for the organization.
- D. The reputation of the external service provider.

**ANSWER: D**

#### **QUESTION NO: 5**

An audit of an organization's claims department determined that a large number of duplicate payments had been issued due to problems in the claims processing system. During the exit conference, the vice president of the claims department informed the auditors that attempts to recover the duplicate payments would be initiated immediately and that the claims processing system would be enhanced within six months to correct the problems. Based on this response, the chief audit executive should:

- A. Adjust the scope of the next regularly scheduled audit to assess controls within the claims processing system.
- B. Discuss the findings with the audit committee and ask the committee to determine the appropriate follow-up action.
- C. Schedule a follow-up engagement within six months to assess the status of corrective action.
- D. Monitor the status of corrective action and schedule a follow-up engagement when appropriate.

**ANSWER: D**

**QUESTION NO: 6**

The final engagement communication contains the following observation:

"The internal auditor discovered that three of the 10 contracts reviewed failed to meet the organization's competitive bidding requirements. Management explained that senior management deemed these purchases to be critical and awarded them as sole-source."

Which of the following components is missing in the documentation of the observation?

- A. Criteria.
- B. Effect.
- C. Condition.
- D. Cause.

**ANSWER: D**

**QUESTION NO: 7**

An internal auditor notices that a division has recorded uncharacteristically high sales and gross margins for the past three months and now suspects the division is reporting fictitious sales. Which course of action should the auditor follow to determine whether fraud has occurred?

- A. Trace a sample of shipping documents to related sales invoices to verify proper billing.
- B. Send accounts receivable balance confirmations to customers.
- C. Compare the division's sales and gross margins to those of the prior three-month period.
- D. Estimate the sales and cost of goods sold for the three-month period by using regression analysis.

**ANSWER: B**

**QUESTION NO: 8**

Which of the following actions are appropriate for the chief audit executive to perform when identifying audit resource requirements?

1. Consider employees from other operational areas as audit resources, to provide additional audit coverage in the organization.
2. Approach an external service provider to conduct internal audits on certain areas of the organization, due to a lack of skills in the organization.
3. Suggest to the audit committee that an audit of technology be deferred until staff can be trained, due to limited IT audit skills among the audit staff.

4. Communicate to senior management a summary report on the status and adequacy of audit resources.

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

**ANSWER: C**

**QUESTION NO: 9**

Which of the following internal audit procedures commonly involves sampling?

- A. Confirmation and financial statement analysis
- B. Reperformance and inspection
- C. Vouching and tracing
- D. Trend analysis and benchmarking

**ANSWER: C**

**QUESTION NO: 10**

Which of the following, if observed, would not indicate the need to extend the search for other indicators of fraud in a purchasing department?

- A. The standard of living of one of the purchasing agents has increased.
- B. The internal control structure has significant weaknesses.
- C. The purchasing agents have convinced management to adopt a policy of paying vendors on a more timely basis in order to avoid incurring penalty charges.
- D. The cost of goods procured seems to be excessive in comparison with previous years.

**ANSWER: C**

**QUESTION NO: 11**

Which of the following is the best problem-solving technique to use when analyzing performance and cost?

- A. Value analysis.

- B. Attribute listing.
- C. Brainstorming.
- D. Component analysis.

**ANSWER: A**

**QUESTION NO: 12**

Which of the following conditions are necessary for successful change management?

1. Decisions and necessary actions are taken promptly.
2. The traditions of the organization are respected.
3. Changes result in improvement or reform.
4. Internal and external communications are controlled.

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

**ANSWER: B**

**QUESTION NO: 13**

A staff auditor, nearly finished with an audit engagement, discovers that the director of marketing has a gambling habit. The gambling issue is not directly related to the existing engagement and there is pressure to complete the current engagement. The auditor notes the problem and forwards the information to the chief audit executive but performs no further follow-up. The auditor's actions would:

- I. Be in violation of the IIA Code of Ethics for withholding meaningful information.
- II. Be in violation of the Standards because the auditor did not properly follow up on a red flag that might indicate the existence of fraud.
- III. Not be in violation of either the IIA Code of Ethics or Standards.

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

**ANSWER: C**

**QUESTION NO: 14**

Which of the following is not true regarding the management of internal audit resources?

- A. A minimum level of information technology knowledge is necessary.
- B. The adequacy of internal audit resources is ultimately a board responsibility.
- C. Resources include external service providers and computer-assisted audit techniques.
- D. Skills availability must be aligned with financial constraints.

**ANSWER: D**

**QUESTION NO: 15**

-----69

Which of the following best describes the manual audit procedure known as vouching?

- A. Testing the validity of information by following it backward to a previously prepared record
- B. Testing the accuracy of the control by reperforming the task or process required
- C. Soliciting and obtaining written verification of the accuracy from an independent third party
- D. Testing the completeness of information forward from a record to a subsequently prepared document

**ANSWER: D**

**QUESTION NO: 16**

When constructing a staffing schedule for the internal audit activity (IAA), which of the following criteria are most important for the chief audit executive to consider for the effective use of audit resources?

1. The competency and qualifications of the audit staff for specific assignments.
2. The effectiveness of IAA staff performance measures.
3. The number of training hours received by staff auditors compared to the budget.
4. The geographical dispersion of audit staff across the organization.

- A. 1 and 3
- B. 1 and 4

C. 2 and 3

D. 2 and 4

**ANSWER: B**

**QUESTION NO: 17**

For which of the following fraud engagement activities would it be most appropriate to involve a forensic auditor?

- A. Independently evaluating conflicts of interests.
- B. Assessing contracts for relevant terms and conditions.
- C. Performing statistical analysis for data anomalies.
- D. Preparing evidentiary documentation.

**ANSWER: D**

**QUESTION NO: 18**

The chief audit executive can illustrate the value of the internal audit activity by reporting which of the following to the board?

- A. The overall performance resulting from the internal audit balanced scorecard.
- B. The number of outstanding and overdue management actions.
- C. The experience of the organization's internal auditors.
- D. The number of audits in the annual audit plan relative to similar organizations.

**ANSWER: D**

**Explanation:**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

**QUESTION NO: 19**

An internal auditor conducted interviews with several employees, documented the interviews, analyzed the summaries, and drew a number of conclusions. What sort of audit evidence has the internal auditor primarily obtained?

- A. Documentary evidence.

- B. Testimonial evidence.
- C. Analytical evidence.
- D. Physical evidence.

**ANSWER: A**

**QUESTION NO: 20**

An internal auditor wanted to determine whether the organization's 200 employees are charging their work hours accurately to the correct project. The internal auditor selected a sample of 30 employee time reports for testing. Based on the testing, the internal auditor determined the following:

- 5 Time reports were incorrect.
- 21 Time reports were correct.
- 4 Time reports were not supported.

- A.** The organization has significant flaws in its reporting of employee time, which could lead to the overstatement of project labor costs. The organization's failure to report accurate and complete employee time could lead to potential fraud and abuse.
- B.** The organization needs to ensure that all reporting of employee time is accurate and complete for each of its projects By dang so the organization can minimize potential issues related to overstating employee tames and labor project costs.
- C.** The organization overstated project costs due to inaccurate and incomplete reporting of employee time charged to the affected accounts As a result the organization cannot ensure at protects costs are accurately reported to stakeholders
- D.** The organization generally ensured that employee hours charged to each project were accurate and complete. However, there were instances of employee time reports that were incorrect or not supported to justify the multiple project labor coats

**ANSWER: B**