

**[1] Gleim #: 1.1.1 -- Source: CIA 597 I-60**

The purposes of the Standards include all of the following except

- A. Establishing the basis for the measurement of internal audit performance.
- B. Guiding the ethical conduct of internal auditors.
- C. Stating basic principles that represent the practice of internal auditing as it should be.
- D. Fostering improved organizational processes and operations.

**[2] Gleim #: 1.1.2 -- Source: CIA 1196 III-30**

The proper organizational role of internal auditing is to

- A. Assist the external auditor in order to reduce external audit fees.
- B. Perform studies to assist in the attainment of more efficient operations.
- C. Serve as the investigative arm of the board.
- D. Serve as an independent, objective assurance and consulting activity that adds value to operations.

**[3] Gleim #: 1.1.3 -- Source: CIA 580 I-9**

One of the purposes of the International Standards for the Professional Practice of Internal Auditing as stated in the Introduction to the current version of the Standards is to

- A. Encourage the professionalization of internal auditing.
- B. Establish the independence of the internal audit activity and emphasize the objectivity of internal auditing.
- C. Encourage external auditors to make more extensive use of the work of internal auditors.
- D. Establish the basis for evaluating internal auditing performance.

**[4] Gleim #: 1.1.4 -- Source: Publisher**

Internal audit activities may involve which of the following?

- A. Assurance services.
- B. Consulting services.
- C. Both assurance and consulting services.
- D. Neither assurance nor consulting services.

**[5] Gleim #: 1.1.5 -- Source: Publisher**

Which Standards apply to organizations and individuals performing specific types of internal auditing services?

- A. Performance Standards.
- B. Attribute Standards.
- C. Implementation Standards.
- D. All of the Standards listed in the other answer choices.

**[6] Gleim #: 1.1.6 -- Source: CIA 1190 I-5**

An internal auditor often faces special problems when performing an engagement at a foreign subsidiary. Which of the following statements is false with respect to the conduct of international engagements?

- A. The IIA Standards do not apply outside of the United States.
- B. The internal auditor should determine whether managers are in compliance with local laws.
- C. There may be justification for having different organizational policies in force in foreign branches.
- D. It is preferable to have multilingual internal auditors conduct engagements at branches in foreign nations.

**[7] Gleim #: 1.1.7 -- Source: CIA 591 I-1**

Which of the following best describes the purpose of the internal audit activity?

- A. To add value and improve an organization's operations.
- B. To assist management with the design and implementation of risk management and control systems.
- C. To examine and evaluate an organization's accounting system as a service to management.
- D. To monitor the organization's internal control system for the external auditors.

**[8] Gleim #: 1.1.8 -- Source: CIA R98 I-37**

The function of internal auditing, as related to communicating results, is to

- A. Ensure compliance with reporting procedures.
- B. Review the expenditure items and match each item with the expenses incurred.
- C. Determine whether any employees are expending funds without authorization.
- D. Identify inadequate controls that increase the likelihood of unauthorized expenditures.

**[9] Gleim #: 1.2.9 -- Source: Publisher**

The Standards consist of three types of standards. Which standards apply to the characteristics of organizations and parties providing internal auditing services?

- A. Implementation Standards.
- B. Performance Standards.
- C. Attribute Standards.
- D. Independence Standards.

**[10] Gleim #: 1.2.10 -- Source: Publisher**

During a consulting engagement, an internal auditor should exercise due professional care by considering which of the following?

- I. Needs and expectations of engagement clients, including the nature, timing, and communication of engagement results.
  - II. Relative complexity and extent of work needed to achieve the engagement's objectives.
  - III. Cost of the consulting engagement in relation to the potential benefits.
- 
- A. I and II.
  - B. II and III.
  - C. I and III.
  - D. I, II, and III.

**[11] Gleim #: 1.2.11 -- Source: Publisher**

What is the responsibility of the internal auditor with respect to fraud?

- A. The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to be an expert.
- B. The internal auditor should have the same ability to detect fraud as a person whose primary responsibility is detecting and investigating fraud.
- C. An internal auditor should have sufficient knowledge and training so that (s)he is able to detect fraud.
- D. An internal auditor's primary role is to detect and investigate fraud.

**[12] Gleim #: 1.2.12 -- Source: Publisher**

Which of the following is responsible for developing and maintaining a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness?

- A. Senior management.
- B. Chief audit executive.
- C. The Board of Directors.
- D. Audit committee.

**[13] Gleim #: 1.3.13 -- Source: Publisher**

According to the Professional Practices Framework of The IIA, which pronouncements represent mandatory guidance for implementing the Standards?

- A. Development Aids.
- B. Practice Aids.
- C. Performance Standards.
- D. Practice Advisories.

**[14] Gleim #: 1.3.14 -- Source: Publisher**

Which of the following are closely related to engagement objectives?

- I. The engagement work program
  - II. Engagement communications
  - III. The engagement plan
- 
- A. I and III only.
  - B. I and II only.
  - C. II and III only.
  - D. I, II, and III.

**[15] Gleim #: 1.3.15 -- Source: Publisher**

Internal auditors need to ascertain the extent to which management has established adequate criteria to determine whether goals and objectives have been accomplished. For this purpose, which of the following actions may be appropriate?

- I. Determining whether operating and program goals and objectives conform to those of the organization
  - II. Reviewing operations to ascertain the extent to which results are consistent with established goals and objectives
  - III. Working with management to develop appropriate control evaluation criteria
- 
- A. I only.
  - B. I and II only.
  - C. I, II, and III.
  - D. II only.

**[16] Gleim #: 1.3.16 -- Source: Publisher**

In planning an engagement, internal auditors should consider which of the following items?

- I. The objectives of the activity being reviewed and the means by which the activity controls performance.
  - II. The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.
  - III. The opportunities for making significant improvements to the activity's information technology systems and control systems.
- 
- A. I and II.
  - B. II and III.
  - C. I and III.
  - D. I, II, and III.

**[17] Gleim #: 1.3.17 -- Source: Publisher**

Internal auditors should communicate results. Communications for all assurance engagements should include

- I. Limitations on distribution to outside parties
- II. The auditor's overall opinion when appropriate
- III. Recommendations and action plans

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

**[18] Gleim #: 1.4.18 -- Source: Publisher**

Internal auditing is an assurance and consulting activity. An example of an assurance service is a(n)

- A. Advisory engagement.
- B. Facilitation engagement.
- C. Training engagement.
- D. Compliance engagement.

**[19] Gleim #: 1.4.19 -- Source: Publisher**

The work of the internal audit activity includes evaluating and contributing to the improvement of risk management systems. Risk is

- I. The negative effect of events certain to occur
- II. Measured in terms of impact
- III. Measured in terms of likelihood

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

**[20] Gleim #: 1.4.20 -- Source: Publisher**

The chief audit executive is best defined as the

- A. Inspector general.
- B. Person responsible for the internal audit function.
- C. Outside provider of internal audit services.
- D. Person responsible for overseeing the contract with the outside provider of internal audit services.

**[21] Gleim #: 1.4.21 -- Source: CIA 581 I-5**

A major reason for establishing an internal audit activity is to

- A. Relieve overburdened management of the responsibility for establishing effective controls.
- B. Safeguard resources entrusted to the organization.
- C. Ensure the reliability and integrity of financial and operational information.
- D. Evaluate and improve the effectiveness of control processes.

**[22] Gleim #: 1.4.22 -- Source: Publisher**

What is the most accurate term for the procedures used by the board to oversee activities performed to achieve organizational objectives?

- A. Governance.
- B. Control.
- C. Risk management.
- D. Monitoring.

**[23] Gleim #: 1.4.23 -- Source: Publisher**

The actions taken to manage risk and increase the likelihood that established objectives and goals will be achieved are best described as

- A. Supervision.
- B. Quality assurance.
- C. Control.
- D. Compliance.

**[24] Gleim #: 1.4.24 -- Source: Publisher**

Which of the following is the most accurate term for the attitudes and actions of the board and management regarding the significance of control within the organization?

- A. Control processes.
- B. Control environment.
- C. Governance process.
- D. Management's philosophy and operating style.

**[25] Gleim #: 1.4.25 -- Source: CIA 04 Model Exam I-60**

What is residual risk?

- A. Impact of risk.
- B. Risk that is under control.
- C. Risk that is not managed.
- D. Underlying risk in the environment.

**[26] Gleim #: 1.4.26 -- Source: Publisher**

Internal auditing is an assurance and consulting activity. An example of an assurance service is a

- A. Process design engagement.
- B. Facilitation engagement.
- C. Training engagement.
- D. Compliance engagement.

**[27] Gleim #: 1.4.27 -- Source: Publisher**

What are the policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the established risk tolerances?

- A. Risk management process.
- B. Internal audit activities.
- C. Control processes.
- D. Governance process.

**[28] Gleim #: 1.4.28 -- Source: Publisher**

Internal auditors should be objective. Objectivity

- A. Requires internal auditors not to subordinate their judgment on audit matters to that of others.
- B. Is required only in assurance engagements.
- C. Is managed at the individual auditor, engagement, functional, and organizational levels.
- D. Prohibits internal auditors from providing consulting services relating to operations for which they had previous responsibility.

**[29] Gleim #: 1.4.29 -- Source: Publisher**

Freedom from conditions that threaten objectivity or the appearance of objectivity is

- A. Control.
- B. Compliance.
- C. Independence.
- D. Avoidance of conflicts of interest.

**[30] Gleim #: 1.4.30 -- Source: Publisher**

The internal audit activity has a role in an organization's governance process. The internal audit activity most directly contributes to this process by

- A. Identifying significant exposures to risk.
- B. Evaluating the effectiveness of the risk management system.
- C. Promoting continuous improvement of controls.
- D. Evaluating the design of ethics-related activities.

**[31] Gleim #: 1.4.31 -- Source: CIA 594 I-55**

The term "risk" is best defined as the possibility that

- A. An internal auditor will fail to detect a material misstatement that causes financial statements or internal reports to be misstated or misleading.
- B. An event could occur affecting the achievement of objectives.
- C. Management will, either knowingly or unknowingly, make decisions that increase the potential liability of the organization.
- D. Financial statements or internal records will contain material misstatements.

**[32] Gleim #: 1.5.32 -- Source: CIA 1195 I-18**

Use of outside service providers with expertise in health care benefits is appropriate when the internal audit activity is

- A. Evaluating the organization's estimate of its liability for postretirement benefits, which include health care benefits.
- B. Comparing the cost of the organization's health care program with other programs offered in the industry.
- C. Training its staff to conduct an audit of health care costs in a major division of the organization.
- D. All of the answers are correct.

**[33] Gleim #: 1.5.33 -- Source: CIA 1193 II-5**

A chief audit executive has reviewed credentials, checked references, and interviewed a candidate for a staff position. The CAE concludes that the candidate has a thorough understanding of internal auditing techniques, accounting, and finance. However, the candidate has limited knowledge of economics and information technology. Which action is most appropriate?

- A. Reject the candidate because of the lack of knowledge required by the Standards.
- B. Offer the candidate a position despite lack of knowledge in certain essential areas.
- C. Encourage the candidate to obtain additional training in economics and information technology and then reapply.
- D. Offer the candidate a position if other staff members possess sufficient knowledge in economics and information technology.

**[34] Gleim #: 1.5.34 -- Source: CIA 593 I-6**

An internal audit activity has scheduled an engagement relating to a construction contract. One portion of this engagement will include comparing materials purchased with those specified in the engineering drawings. The IAA does not have anyone on staff with sufficient expertise to complete this procedure. The chief audit executive should

- A. Delete the engagement from the schedule.
- B. Perform the entire engagement using current staff.
- C. Engage an engineering consultant to perform the comparison.
- D. Accept the contractor's written representations.

**[35] Gleim #: 1.5.35 -- Source: CIA 596 I-64**

A chief audit executive for a large manufacturer is considering revising the internal audit activity's charter with respect to the minimum educational and experience qualifications required. The CAE wants to require all staff auditors to possess specialized training in accounting and a professional auditing certification such as the Certified Internal Auditor or the Chartered Accountant (CA). One of the disadvantages of imposing this requirement would be

- A. The policy might negatively affect the internal audit activity's ability to perform quality engagements relating to the organization's financial and accounting systems.
- B. The policy would not promote the professionalism of the internal audit activity.
- C. The policy would prevent the internal audit activity from using outside service providers when it did not have the knowledge, skills, and other competencies required in certain engagements.
- D. The policy could limit the range of services that could be performed due to the internal audit activity's narrow expertise and backgrounds.

**[36] Gleim #: 1.5.36 -- Source: CIA 594 III-7**

If the internal audit activity of a non-public company does not have the skills to perform a particular task, an outside service provider could be brought in from

- I. The organization's external audit firm
- II. An outside consulting firm
- III. The engagement client
- IV. A college or university

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

**[37] Gleim #: 1.5.37 -- Source: CIA 1193 I-5**

A professional engineer applied for a position in the internal audit activity of a high technology firm. The engineer became interested in the position after observing several internal auditors while they were performing an engagement in the engineering department. The chief audit executive

- A. Should not hire the engineer because of the lack of knowledge of internal auditing standards.
- B. May hire the engineer despite the lack of knowledge of internal auditing standards.
- C. Should not hire the engineer because of the lack of knowledge of accounting and taxes.
- D. May hire the engineer because of the knowledge of internal auditing gained in the previous position.

**[38] Gleim #: 1.5.38 -- Source: CIA 591 II-8**

Your organization has selected you to develop an internal audit activity (IAA). Your approach will most likely be to hire

- A. Internal auditors each of whom possesses all the skills required to handle all engagements.
- B. Inexperienced personnel and train them the way the organization wants them trained.
- C. Degreed accountants because most internal audit work is accounting related.
- D. Internal auditors who collectively have the knowledge and skills needed to perform the responsibilities of the internal audit activity.

**[39] Gleim #: 1.5.39 -- Source: CIA 591 II-14**

Reasonable assurance should be obtained as to each prospective internal auditor's qualifications and proficiency. Which of the following is the least useful application of this principle?

- A. Determining that all applicants have an accounting degree.
- B. Obtaining college transcripts.
- C. Checking an applicant's references.
- D. Determining previous job experience.

**[40] Gleim #: 1.5.40 -- Source: CIA 1195 I-14**

Internal auditing is unique in that its scope often encompasses all areas of an organization. Thus, it is not possible for each internal auditor to possess detailed competence in all areas that might be the subject of engagements. Which of the following competencies should every internal auditor have?

- A. Understanding of taxation and law as it applies to operation of the organization.
- B. Proficiency in accounting principles.
- C. Understanding of management principles.
- D. Proficiency in information technology.

**[41] Gleim #: 1.5.41 -- Source: CIA 1194 I-46**

Internal auditors should be proficient with respect to which discipline?

- A. Internal auditing procedures and techniques.
- B. Accounting principles and techniques.
- C. Management principles.
- D. Marketing techniques.

**[42] Gleim #: 1.5.42 -- Source: CIA 1194 I-47**

Internal auditors should have an understanding with respect to which discipline?

- A. Internal auditing procedures and techniques.
- B. Accounting principles and techniques.
- C. Management principles.
- D. Marketing techniques.

**[43] Gleim #: 1.5.43 -- Source: CIA 1194 I-48**

Internal auditors should have an appreciation of which discipline?

- A. Internal auditing procedures and techniques.
- B. Accounting principles and techniques.
- C. Management principles.
- D. Marketing techniques.

**[44] Gleim #: 1.5.44 -- Source: CIA 592 II-5**

Internal auditors should possess all of the following except

- A. Proficiency in applying internal auditing standards.
- B. An understanding of management principles.
- C. The ability to maintain good interpersonal relations.
- D. The ability to conduct training sessions in quantitative methods.

**[45] Gleim #: 1.5.45 -- Source: CIA 1195 I-49**

Communication skills are important to internal auditors. They should be able to convey effectively all of the following to engagement clients except

- A. The objectives designed for a specific engagement.
- B. The engagement evaluations based on a preliminary survey.
- C. The risk assessment used in selecting the area for investigation.
- D. Recommendations that are generated in relationship to a specific engagement client.



**[46] Gleim #: 1.5.46 -- Source: CIA 04 Model Exam I-11**

The Standards require that internal auditors possess which of the following skills?

- I. Internal auditors should understand human relations and be skilled in dealing with people
  - II. Internal auditors should be able to recognize and evaluate the materiality and significance of deviations from good business practices
  - III. Internal auditors should be experts on subjects such as economics, commercial law, taxation, finance, and information technology
  - IV. Internal auditors should be skilled in oral and written communication
- 
- A. II only.
  - B. I and III only.
  - C. III and IV only.
  - D. I, II, and IV only.

**[47] Gleim #: 1.5.47 -- Source: CIA 04 Model Exam I-12**

A chief audit executive (CAE) has been requested by the audit committee to conduct an engagement at a chemical factory as soon as possible. The engagement will include reviews of health, safety, and environmental (HSE) management and processes. The CAE knows that the internal audit activity does not possess the HSE knowledge necessary to conduct such an engagement. The CAE should:

- A. Begin the engagement and incorporate HSE training into next year's planning to prepare for a follow-up engagement.
- B. Suggest to the audit committee that the factory's own HSE staff conduct the engagement.
- C. Seek permission from the audit committee to obtain appropriate support from an HSE professional.
- D. Defer the engagement and tell the audit committee that it will take several months to train internal audit staff for such an engagement.

**[48] Gleim #: 1.5.48 -- Source: CIA 04 Model Exam I-16**

A chief audit executive (CAE) for a very small internal audit department has just received a request from management to perform an audit of an extremely complex area in which the CAE and the department have no expertise. The nature of the audit engagement is within the scope of internal audit activities. Management has expressed a desire to have the engagement conducted in the very near future because of the high level of risk involved. Which of the following responses by the CAE would be in violation of the Standards?

- A. Discuss with management the possibility of outsourcing the audit of this complex area.
- B. Add an outside consultant to the audit staff to assist in the performance of the audit engagement.
- C. Accept the audit engagement and begin immediately, since it is a high-risk area.
- D. Discuss the timeline of the audit engagement with management to determine if sufficient time exists in which to develop appropriate expertise.

**[49] Gleim #: 1.5.49 -- Source: CIA 591 I-8**

When hiring entry-level internal auditing staff, which of the following will most likely predict the applicant's success as an internal auditor?

- A. Grade point average on college accounting courses.
- B. Ability to fit well socially into a group.
- C. Ability to organize and express thoughts well.
- D. Level of detailed knowledge of the organization.

**[50] Gleim #: 1.5.50 -- Source: CIA 1196 I-48**

When the engagement was assigned, management asked the internal auditor to evaluate the appropriateness of using self-insurance to minimize risk to the organization. Given the scope of the engagement requested by management, should the internal auditor engage an actuarial consultant to assist in the engagement if these skills do not exist on staff?

- A. No. The internal audit activity is skilled in assessing controls, and the insurance control concepts are not distinctly different from other control concepts.
- B. No. It is a normal internal auditor function to assess risk; this engagement is therefore not unique.
- C. Yes. An actuary is essential to determine whether the health care costs are reasonable.
- D. Yes. The actuary has skills, not usually found among internal auditors, to identify and quantify self-insurance risks.

**[51] Gleim #: 1.5.51 -- Source: CIA 1190 II-4**

Internal auditors should possess the knowledge, skills, and other competencies essential to the performance of their individual responsibilities. Consequently, all internal auditors should be proficient in applying

- A. Internal auditing standards.
- B. Quantitative methods.
- C. Management principles.
- D. Structured systems analysis.

**[52] Gleim #: 1.5.52 -- Source: CIA 1191 I-6**

The internal audit activity is considering hiring a person who has a thorough understanding of internal auditing techniques, accounting, and principles of management but has nonspecialized knowledge of economics and information technology. Hiring the person is most appropriate if

- A. A professional development program is agreed to in advance of actual hiring.
- B. A mentor is assigned to ensure completion of an individually designed professional development program.
- C. Other internal auditors possess sufficient knowledge of economics and information technology.
- D. The prospective employee could reasonably be expected to gain sufficient knowledge of these competencies in the long run.

**[53] Gleim #: 1.5.53 -- Source: CIA 594 I-67**

An internal auditor must have the knowledge, skills, and other competencies needed to perform their individual responsibilities. Which of the following properly describes the level of knowledge, skill, or other competency required? Internal auditors must have

- A. Proficiency in applying internal auditing standards and procedures without extensive recourse to technical research and assistance.
- B. Proficiency in applying knowledge of accounting and information technology to specific or potential problems.
- C. An understanding of broad techniques used in supporting and developing engagement observations and the ability to research the proper procedures to be used in any engagement situation.
- D. A broad appreciation of accounting principles and techniques during engagements involving the financial records and reports of the organization.

**[54] Gleim #: 1.5.54 -- Source: CIA 595 III-2**

The consultative approach to internal auditing emphasizes

- A. Imposition of corrective measures.
- B. Participation with engagement clients to improve methods.
- C. Fraud investigation.
- D. Implementation of policies and procedures.

**[55] Gleim #: 1.5.55 -- Source: CIA 1195 III-7**

As part of the process to improve internal auditor-engagement client relations, it is very important to deal with how the internal audit activity is perceived. Certain types of attitudes in the work performed will help create these perceptions. From a management perspective, which attitude is likely to be the most conducive to a positive perception?

- A. Objective.
- B. Investigative.
- C. Interrogatory.
- D. Consultative.

**[56] Gleim #: 1.6.56 -- Source: Publisher**

In exercising due professional care, an internal auditor should consider which of the following?

- I. The relative complexity, materiality, or significance of matters to which assurance procedures are applied
- II. The extent of assurance procedures necessary to ensure that all significant risks will be identified
- III. The probability of significant errors, irregularities, or noncompliance

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

**[57] Gleim #: 1.6.57 -- Source: Publisher**

The internal auditor should exercise due professional care in conducting a formal consulting engagement by understanding all of the following except

- A. Possible motivations and reasons of those requesting the service.
- B. Potential benefits in the form of compensation to be derived from the engagement.
- C. Skills and resources needed to conduct the engagement.
- D. Potential impact on future audit assignments and engagements.

**[58] Gleim #: 1.6.58 -- Source: Publisher**

The chief audit executive (CAE) is conducting a formal consulting engagement for XYZ Corp. In addition to the independence and objectivity evaluation and due professional care considerations, the CAE should do which of the following?

- I. Document general terms, understandings, deliverables, and other key factors of the formal consulting engagement in a written agreement or plan.
- II. Evaluate the consulting engagement for comparability with the internal audit activity's overall plan of engagements.
- III. Conduct appropriate meetings and gather necessary information to assess the nature and extent of the services to be provided.

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

**[59] Gleim #: 1.6.59 -- Source: CIA 1191 II-48**

Which of the following statements is true with respect to due professional care?

- A. An internal auditor should perform detailed tests of all transactions before communicating results.
- B. An item should not be mentioned in an engagement communication unless the internal auditor is absolutely certain of the item.
- C. An engagement communication should never be viewed as providing an infallible truth about a subject.
- D. An internal auditor has no responsibility to recommend improvements.

**[60] Gleim #: 1.6.60 -- Source: CIA 593 I-44**

An internal auditor observes that a receivables clerk has physical access to and control of cash receipts. The auditor worked with the clerk several years before and has a high level of trust in the individual. Accordingly, the auditor notes in the engagement working papers that controls over receipts are adequate. Has the auditor exercised due professional care?

- A. Yes, reasonable care has been taken.
- B. No, irregularities were not noted.
- C. No, alertness to conditions most likely indicative of irregularities was not shown.
- D. Yes, the engagement working papers were annotated.

**[61] Gleim #: 1.6.61 -- Source: CIA 592 I-50**

Due professional care implies reasonable care and competence, not infallibility or extraordinary performance. Thus, which of the following is unnecessary?

- A. The conduct of examinations and verifications to a reasonable extent.
- B. The conduct of extensive examinations.
- C. The reasonable assurance that compliance does exist.
- D. The consideration of the possibility of material irregularities.

**[62] Gleim #: 1.6.62 -- Source: CIA 1190 II-3)**

An internal auditor judged an item to be immaterial when planning an assurance engagement. However, the assurance engagement may still include the item if it is subsequently determined that

- A. Sufficient staff is available.
- B. Adverse effects related to the item are likely to occur.
- C. Related information is reliable.
- D. Miscellaneous income is affected.

**[63] Gleim #: 1.6.63 -- Source: CIA 1186 I-45**

The internal audit activity can perform an important role in preventing and detecting significant fraud by being assigned all but which one of the following tasks?

- A. Review large, abnormal, or unexplained expenditures.
- B. Review sensitive expenses such as legal fees, consultant fees, and foreign sales commissions.
- C. Review every control feature pertaining to petty cash receipts.
- D. Review contributions by the organization that appear to be unusual.

**[64] Gleim #: 1.6.64 -- Source: Publisher**

Assurance engagements should be performed with proficiency and due professional care. Accordingly, the Standards require internal auditors to

- I. Consider the probability of significant noncompliance
  - II. Perform assurance procedures with due professional care so that all significant risks are identified
  - III. Weigh the cost of assurance against the benefits
- 
- A. I and II only.
  - B. I and III only.
  - C. II and III only.
  - D. I, II, and III.

**[Fact Pattern #1]**

An organization has two manufacturing facilities. Each facility has two manufacturing processes and a separate packaging process. The processes are similar at both facilities. Raw materials used include aluminum, materials to make plastic, various chemicals, and solvents. Pollution occurs at several operational stages, including raw materials handling and storage, process chemical use, finished goods handling, and disposal. Waste products produced during the manufacturing processes include several that are considered hazardous. The nonhazardous waste is transported to the local landfill. An outside waste vendor is used for the treatment, storage, and disposal of all hazardous waste.

Management is aware of the need for compliance with environmental laws. The organization recently developed an environmental policy including a statement that each employee is responsible for compliance with environmental laws.

**[65] Gleim #: 1.6.65 -- Source: CIA 596 I-23**

(Refers to Fact Pattern #1)

If the internal audit activity is assigned the responsibility of conducting an environmental audit, which of the following actions should be performed first?

- A. Conduct risk assessments for each site.
- B. Review organizational policies and procedures and verify compliance.
- C. Provide the assigned staff with technical training.
- D. Review the environmental management system.

**[66] Gleim #: 1.6.66 -- Source: CIA 04 Model Exam I-13**

To ensure that due professional care has been taken at all times during an engagement, the internal auditor should always:

- A. Ensure that all financial information related to the audit is included in the audit plan and examined for nonconformance or irregularities.
- B. Ensure that all audit tests are fully documented.
- C. Consider the possibility of nonconformance or irregularities at all times during an engagement.
- D. Communicate any noncompliance or irregularity discovered during an engagement promptly to the audit committee.

**[Fact Pattern #2]**

A staff internal auditor performed a portion of an engagement to review an organization's marketing function. In particular, the internal auditor evaluated the function's effective and efficient use of resources to identify

- I. Underused facilities
- II. Overstaffing or understaffing
- III. Nonproductive work
- IV. Procedures that were not cost justified

To test for underused facilities, the internal auditor performed a complete walk-through of all spaces assigned to the marketing function and evaluated the use of both space and capital equipment. The internal auditor analyzed reports on space usage for the last year and concluded that facilities were neither underused nor used at maximum capacity.

To test for overstaffing or understaffing, the internal auditor compared current staffing levels with a staffing analysis recently completed by an independent contractor. Because the staffing analysis used work standards and service demands to provide factual and reliable information on staffing requirements, the internal auditor was able to conclude that staffing levels were optimal.

To test for nonproductive work, the internal auditor interviewed an employee from each level, and, based upon their responses, concluded that no significant amount of nonproductive work was being performed. Thus, the internal auditor concluded that additional engagement work to search for procedures that were not cost justified would not be necessary.

**[67] Gleim #: 1.6.67 -- Source: CIA 1193 I-46**

(Refers to Fact Pattern #2)

In reference to requirements I and II, due professional care

- A. Was exercised because the internal auditor applied reasonable care and competence in both areas.
- B. Was not exercised because the internal auditor failed to apply reasonable care regarding requirement II.
- C. Was not exercised because the internal auditor failed to apply reasonable care regarding requirements I and II.
- D. Was not exercised because the internal auditor failed to apply reasonable care regarding requirement I.

**[68] Gleim #: 1.6.68 -- Source: CIA 1193 I-47**

(Refers to Fact Pattern #2)

In reference to requirements III and IV, due professional care

- A. Was exercised because the internal auditor applied reasonable care and competence in both areas.
- B. Was not exercised because the internal auditor failed to apply reasonable care and competence regarding requirement III.
- C. Was not exercised because the internal auditor failed to apply reasonable care and competence regarding both requirements III and IV.
- D. Was not exercised because the internal auditor failed to apply reasonable care and competence regarding requirement IV.

**[69] Gleim #: 1.6.69 -- Source: CIA 1191 I-49**

With regard to the exercise of due professional care, an internal auditor should

- A. Consider the relative materiality or significance of matters to which assurance procedures are applied.
- B. Emphasize the potential benefits of an engagement without regard to the cost.
- C. Consider whether established operating standards are being met and not whether those standards are acceptable.
- D. Select procedures that are likely to provide absolute assurance that irregularities do not exist.

**[70] Gleim #: 1.7.70 -- Source: CIA 1195 I-43**

Internal auditors are responsible for continuing their education in order to maintain their proficiency. Which of the following is true regarding the continuing education requirements of the practicing internal auditor?

- A. Internal auditors are required to obtain 40 hours of continuing professional education each year and a minimum of 120 hours over a 3-year period.
- B. CIAs have formal requirements that must be met in order to continue as CIAs.
- C. Attendance, as an officer or committee member, at formal Institute of Internal Auditors meetings does not meet the criteria of continuing professional development.
- D. In-house programs meet continuing professional education requirements only if they have been preapproved by The Institute of Internal Auditors.

**[71] Gleim #: 2.1.1 -- Source: CIA 593 II-5**

During an engagement to evaluate the organization's accounts payable function, an internal auditor plans to confirm balances with suppliers. What is the source of authority for such contacts with units outside the organization?

- A. Internal audit activity policies and procedures.
- B. The Standards.
- C. The Code of Ethics.
- D. The internal audit activity's charter.

**[72] Gleim #: 2.1.2 -- Source: CIA 1193 I-3**

An element of authority that should be included in the charter of the internal audit activity is

- A. Identification of the organizational units where engagements are to be performed.
- B. Identification of the types of disclosures that should be made to the audit committee.
- C. Access to records, personnel, and physical properties relevant to the performance of engagements.
- D. Access to the external auditor's engagement records.

**[73] Gleim #: 2.1.3 -- Source: CIA 1192 II-7**

The audit committee of an organization has charged the chief audit executive (CAE) with upgrading the internal audit activity. The CAE's first task is to develop a charter. What item should be included in the statement of objectives?

- A. Report all engagement results to the audit committee every quarter.
- B. Notify governmental regulatory agencies of unethical business practices by organization management.
- C. Evaluate the adequacy and effectiveness of the organization's controls.
- D. Submit budget variance reports to management every month.

**[74] Gleim #: 2.1.4 -- Source: CIA 589 II-2**

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

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

**[75] Gleim #: 2.1.5 -- Source: Publisher**

Is it appropriate for an internal auditor to conduct an engagement that combines elements of consulting and assurance services?

- A. Yes, in all circumstances.
- B. Yes, in some circumstances.
- C. No, unless the audit committee gives permission.
- D. In no circumstances.

**[76] Gleim #: 2.1.6 -- Source: Publisher**

Participation on a system conversion team falls into which possible category of consulting engagements?

- A. Formal consulting engagements.
- B. Special consulting engagements.
- C. Informal consulting engagements.
- D. Emergency consulting engagements.

**[77] Gleim #: 2.1.7 -- Source: CIA 595 I-60**

A charter is one of the more important factors positively affecting the internal audit activity's independence. Which of the following is least likely to be part of the charter?

- A. Access to records within the organization.
- B. The scope of internal audit activities.
- C. The length of tenure of the chief audit executive.
- D. Access to personnel within the organization.

**[78] Gleim #: 2.1.8 -- Source: CIA 1195 I-40**

Internal auditing has planned an engagement to evaluate the effectiveness of the quality assurance function as it affects the receipt of goods, the transfer of the goods into production, and the scrap costs related to defective items. The engagement client argues that such an engagement is not within the scope of the internal audit activity and should come under the purview of the quality assurance department only. What is the most appropriate response?

- A. Refer to the internal audit activity's charter and the approved engagement plan that includes the area designated for evaluation in the current time period.
- B. Because quality assurance is a new function, seek the approval of management as a mediator to set the scope of the engagement.
- C. Indicate that the engagement will evaluate the function only in accordance with the standards set by, and approved by, the quality assurance function before beginning the engagement.
- D. Terminate the engagement because it will not be productive without the client's cooperation.

**[79] Gleim #: 2.1.9 -- Source: CIA 589 II-4**

The chief audit executive has assigned an internal auditor to perform a year-end engagement to evaluate payroll records. The internal auditor has contacted the director of compensation and has been refused access to necessary documents. To avoid this problem,

- A. Access to records relevant to performance of engagements should be specified in the internal audit activity's charter.
- B. Internal auditing should be required to report to the CEO of the organization.
- C. By following the long-range planning process, access to all relevant records should be guaranteed.
- D. Audit committee approval should be required for all scope limitations.

**[80] Gleim #: 2.1.10 -- Source: CIA 1190 I-2**

A charter is being drafted for a newly formed internal audit activity. Which of the following best describes the appropriate organizational status that should be incorporated into the charter?

- A. The chief audit executive should report to the chief executive officer but have access to the board of directors.
- B. The chief audit executive should be a member of the audit committee of the board of directors.
- C. The chief audit executive should be a staff officer reporting to the chief financial officer.
- D. The chief audit executive should report to an administrative vice president.

**[81] Gleim #: 2.1.11 -- Source: CIA 593 I-5**

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

**[82] Gleim #: 2.1.12 -- Source: CIA 1196 III-34**

In some organizations, internal auditing functions are outsourced. Management in a large organization should recognize that the external auditor may have an advantage, compared with the internal auditor, because of the external auditor's

- A. Familiarity with the organization. Its annual audits provide an in-depth knowledge of the organization.
- B. Size. It can hire experienced, knowledgeable, and certified staff.
- C. Size. It is able to offer continuous availability of staff unaffected by other priorities.
- D. Structure. It may more easily accommodate engagement requirements in distant locations.

**[83] Gleim #: 2.1.13 -- Source: Publisher**

Internal auditors may provide consulting services that add value and improve an organization's operations. The performance of these services

- A. Impairs internal auditors' objectivity with respect to an assurance service involving the same engagement client.
- B. Precludes generation of assurance from a consulting engagement.
- C. Should be consistent with the internal audit activity's empowerment reflected in the charter.
- D. Imposes no responsibility to communicate information other than to the engagement client.

**[84] Gleim #: 2.1.14 -- Source: CIA 04 Model Exam I-1**

Which of the following is not true with regard to the internal audit charter?

- A. It defines the authorities and responsibilities for the internal audit activity.
- B. It specifies the minimum resources needed for the internal audit activity.
- C. It provides a basis for evaluating the internal audit activity.
- D. It should be approved by senior management and the board.

**[85] Gleim #: 2.1.15 -- Source: Publisher**

After the chief audit executive receives approval from the board of directors to offer consulting services, what should be done?



- A. The CAE should begin performing consulting services.
- B. The CAE should get approval from the audit committee.
- C. The internal audit charter should be amended.
- D. The board should develop appropriate policies and procedures for conducting such engagements.

**[Fact Pattern #3]**

The charter of the internal audit activity (IAA) of a large public entity has not yet been approved by the board. However, the board is chaired by the chief executive officer (CEO) and includes the controller and one outside board member. The chief audit executive (CAE) reports directly to the controller who approves the IAA's work schedule. The previous CAE was recently dismissed following a dispute between the CAE and a major engagement client. Within the first month, the new CAE encountered substantial resistance from an engagement client regarding the nature of the work and the IAA's access to records. Moreover, the CEO accused the CAE of not operating "in the best interests of the organization."

**[86] Gleim #: 2.2.16 -- Source: CIA 1195 I-45**

(Refers to Fact Pattern #3)

From the perspective of the internal audit activity, which of the following facts, by themselves, could contribute to a lack of independence?

- I. The CEO accused the new auditor of not operating "in the best interests of the organization."
- II. The majority of audit committee members come from within the organization.
- III. The IAA's charter has not been approved by the board.

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

**[87] Gleim #: 2.2.17 -- Source: CIA 592 II-2**

To avoid being the apparent cause of conflict between an organization's senior management and the audit committee, the chief audit executive should

- A. Communicate all engagement results to both senior management and the audit committee.
- B. Strengthen the independence of the internal audit activity through organizational status.
- C. Discuss all reports to senior management with the audit committee first.
- D. Request board approval of policies that include IAA relationships with the audit committee.

**[88] Gleim #: 2.2.18 -- Source: Publisher**

The CAE has relationships with control and monitoring functions other than those in the functional and administrative reporting lines. With respect to these other functions, the CAE should facilitate the reporting of material risk and control issues to

- A. The chief executive officer.
- B. The external auditor.
- C. The audit committee.
- D. The board.

**[89] Gleim #: 2.2.19 -- Source: CIA 596 I-65**

An organization is in the process of establishing its new internal audit activity. The controller has no previous experience with internal auditors. Due to this lack of experience, the controller advised the applicants that the CAE will be reporting to the external auditors. However, the new chief audit executive will have free access to the controller to report anything important. The controller will then convey the CAE's concerns to the board of directors. The IAA will

- A. Be independent because the CAE has direct access to the board.
- B. Not be independent because the CAE reports to the external auditors.
- C. Not be independent because the controller has no experience with internal auditors.
- D. Not be independent because the organization did not specify that the applicants must be certified internal auditors.

**[90] Gleim #: 2.2.20 -- Source: CIA 1194 I-56**

A medium-sized publicly owned organization operating in Country X has grown to a size that the governing authority believes warrants the establishment of an internal audit activity. Country X has legislated internal auditing requirements for government-owned organizations. The organization changed the bylaws to reflect the establishment of the internal audit activity. The governing authority decided that the chief audit executive (CAE) must be a certified internal auditor and will report directly to the newly established audit committee. Which of the items discussed above will contribute the most to the new CAE's independence?

- A. The establishment of the internal audit activity is documented in the bylaws.
- B. Country X has legislated internal auditing requirements.
- C. The CAE will report to the audit committee.
- D. The CAE is to be a certified internal auditor.

**[91] Gleim #: 2.2.21 -- Source: Publisher**

The CAE should report functionally to a governing authority (audit committee or board of directors). This authority is responsible for which of the following activities?

- I. Internal communication and information flows
- II. Approval of the internal audit risk assessment and related audit plan
- III. Approval of annual compensation and salary adjustment for the CAE

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

**[92] Gleim #: 2.2.22 -- Source: Publisher**

The reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit function is referred to as which of the following?

- A. Administrative reporting.
- B. Financial reporting.
- C. Management reporting.
- D. Functional reporting.

**[93] Gleim #: 2.2.23 -- Source: CIA 1191 I-3**

An external quality assessment team was evaluating the independence of an internal audit activity. The internal audit activity performs engagements concerning all of the elements included in its scope. Which of the following reporting responsibilities is most likely to threaten the internal audit activity's independence? Reporting to the

- A. President.
- B. Treasurer.
- C. Executive vice president.
- D. Audit committee.

**[94] Gleim #: 2.2.24 -- Source: Publisher**

During the performance of an engagement to evaluate a division's controls over purchasing, the chief purchasing agent asked why the internal auditor had requested documents pertaining to transactions with a particular supplier. The internal auditor's proper response is to

- A. Treat the inquiry as a scope limitation.
- B. Explain the reasons for the information request to promote cooperation with the engagement client.
- C. Refuse to explain the information request to preserve the integrity of the engagement process.
- D. Consider the specific circumstances before deciding whether to disclose the reasons for the information request.

**[95] Gleim #: 2.2.25 -- Source: CIA 592 I-2**

Independence permits internal auditors to render impartial and unbiased judgments. The best way to achieve independence is through

- A. Individual knowledge and skills.
- B. Organizational status and objectivity.
- C. Supervision within the organization.
- D. Organizational knowledge and skills.

**[96] Gleim #: 2.2.26 -- Source: Publisher**

The internal audit function should be free to audit and report on any activity that also reports to its administrative head if it considers such coverage to be appropriate for its audit plan. Any limitation in scope or reporting of results of these activities should be brought to the attention of whom?

- A. Chief Executive Officer.
- B. Chief Financial Officer.
- C. External Auditor.
- D. Audit Committee.

**[97] Gleim #: 2.2.27 -- Source: CIA 594 I-37**

When evaluating the independence of an internal audit activity, a quality assurance review team performing an external assessment considers several factors. Which of the following factors has the least amount of influence when judging an internal audit activity's independence?

- A. Criteria used in making internal auditors' assignments.
- B. The extent of internal auditor training in communications skills.
- C. Relationship between engagement records and engagement communications.
- D. Impartial and unbiased judgments.

**[98] Gleim #: 2.2.28 -- Source: Publisher**

The administrative reporting line of the CAE should be to

- A. The audit committee.
- B. Line management.
- C. Board of directors.
- D. CEO or equivalent.

**[99] Gleim #: 2.2.29 -- Source: Publisher**

Regardless of which reporting relationship the organization chooses, several key actions can help ensure that the reporting lines support and enable the effectiveness and independence of the internal auditing activity. Which key action will not achieve its functional reporting purpose?

- A. The functional reporting line should go directly to the Audit Committee or its equivalent to ensure the appropriate level of independence and communication.
- B. The CAE should meet with the audit committee or its equivalent, with management present, to reinforce the independence and nature of this reporting relationship.
- C. The audit committee should have the final authority to review and approve the annual audit plan and all major changes to the plan.
- D. At all times, the CAE should have open and direct access to the chair of the audit committee and its members; or the chair of the board or full board if appropriate.

**[100] Gleim #: 2.2.30 -- Source: CIA 594 I-70**

A written charter approved by the board that formally defines the internal audit activity's purpose, authority, and responsibility enhances its

- A. Exercise of due professional care.
- B. Proficiency.
- C. Relationship with management.
- D. Independence.

**[101] Gleim #: 2.2.31 -- Source: CIA 1192 I-7**

Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of engagements. Which of the following best promotes independence?

- A. A policy that requires internal auditors to report to the chief audit executive any situations in which a conflict of interest or bias on the part of the individual internal auditor is present or may reasonably be inferred.
- B. A policy that prevents the internal audit activity from recommending standards of control for systems that it evaluates.
- C. An organizational policy that allows engagements concerning sensitive operations to be outsourced.
- D. An organizational policy that prevents personnel transfers from operating activities to the internal audit activity.

**[102] Gleim #: 2.2.32 -- Source: CIA 1192 I-2**

The reporting structure that is most likely to allow the internal audit activity to accomplish its responsibilities is to report administratively to the

- A. Board and functionally to the chief executive officer.
- B. Controller and functionally to the chief financial officer.
- C. Chief executive officer and functionally to the board of directors.
- D. Chief executive officer and functionally to the external auditor.

**[103] Gleim #: 2.2.33 -- Source: CIA 593 II-3**

The organizational status of the internal audit activity

- A. Should be sufficient to permit the accomplishment of the activity's responsibilities.
- B. Is best when the reporting relationship is direct to the board of directors.
- C. Requires the board's annual approval of the engagement work schedule, staffing plan, and financial budget.
- D. Is guaranteed when the charter specifically defines the activity's independence.

**[104] Gleim #: 2.2.34 -- Source: CIA 593 II-4**

Audit committees are most likely to participate in approving

- A. Staff promotions and salary increases.
- B. Engagement communication observations, conclusions, and recommendations.
- C. Engagement work programs.
- D. Appointment of the chief audit executive.

**[105] Gleim #: 2.2.35 -- Source: Publisher**

The IIA has indicated that to achieve necessary independence, the CAE should report functionally to whom?

- A. Senior management.
- B. Shareholders.
- C. Chief Executive Officer.
- D. Audit committee.

**[106] Gleim #: 2.2.36 -- Source: Publisher**

The CAE should consider all but which of the following attributes in evaluating the appropriateness of the administrative reporting line?

- A. Does the individual have sufficient authority and stature to ensure the effectiveness of the function?
- B. Does the individual have an appropriate control and governance mindset to assist the CAE in the CAE's role?
- C. Does the individual have the time and interest to actively support the CAE on audit issues?
- D. Does the individual understand the administrative reporting relationship and support it?

**[107] Gleim #: 2.2.37 -- Source: CIA 595 III-16**

In some cultures and organizations, managers insist that an internal audit activity is not needed to provide a critical assessment of the organization's operations. This kind of management attitude will most probably have an adverse effect on the internal audit activity's

- A. Operating budget variance.
- B. Effectiveness.
- C. Performance appraisals.
- D. Policies and procedures.

**[Fact Pattern #4]**

A service organization is currently experiencing a significant downsizing and process reengineering. Its board of directors has redefined the business goals and established initiatives using in-house developed technology to meet these goals. As a result, a more decentralized approach has been adopted to run the business functions by empowering the business branch managers to make decisions and perform functions traditionally done at a higher level. The internal auditing staff is made up of the chief audit executive, two managers, and five staff auditors, all with financial background. In the past, the primary focus of successful internal audit activities has been the service branches and the six regional division headquarters which support the branches. These division headquarters are the primary targets for possible elimination. The support functions such as human resources, accounting, and purchasing will be brought into the national headquarters, and technology will be enhanced to enable and augment these operations.

**[108] Gleim #: 2.2.38 -- Source: CIA 1195 III-4**

(Refers to Fact Pattern #4)

Up to this point, the internal audit activity has reported to the chief operating officer. Due to the significant changes, there has been some discussion as to changing this reporting relationship. What would be the best reporting relationship?

- A. Administratively and functionally to the president.
- B. Administratively to the president, functionally to the board.
- C. Administratively to the chief financial officer and functionally to the president.
- D. Administratively and functionally to the chief operating officer.

**[109] Gleim #: 2.3.39 -- Source: Publisher**

An internal auditor has recently received an offer from the manager of the marketing department of a weekend's free use of his beachfront condominium. No engagement is currently being conducted in the marketing department, and none is scheduled. The internal auditor

- A. Should reject the offer and report it to the appropriate supervisor.
- B. May accept the offer because its value is immaterial.
- C. May accept the offer because no engagement is being conducted or planned.
- D. May accept the offer if approved by the appropriate supervisor.

**[110] Gleim #: 2.3.40 -- Source: CIA 1194 I-49**

Internal auditors must be objective in performing their work. Assume that the chief audit executive received an annual bonus as part of that individual's compensation package. The bonus may impair the CAE's objectivity if

- A. The bonus is administered by the board of directors or its salary administration committee.
- B. The bonus is based on monetary amounts recovered or recommended future savings as a result of engagements.
- C. The scope of internal auditing work is evaluating control rather than account balances.
- D. All of the answers are correct.

**[111] Gleim #: 2.3.41 -- Source: CIA 04 Model Exam I-7**

As part of a company-sponsored award program, an internal auditor was offered an award of significant monetary value by a division in recognition of the cost savings that resulted from the auditor's recommendations. According to the International Professional Practices Framework, what is the most appropriate action for the auditor to take?

- A. Accept the gift since the engagement is already concluded and the report issued.
- B. Accept the award under the condition that any proceeds go to charity.
- C. Inform audit management and ask for direction on whether to accept the gift.
- D. Decline the gift and advise the division manager's superior.

**[112] Gleim #: 2.3.42 -- Source: CIA 04 Model Exam I-10**

An internal auditor assigned to audit a vendor's compliance with product quality standards is the brother of the vendor's controller. The auditor should:

- A. Accept the assignment, but avoid contact with the controller during fieldwork.
- B. Accept the assignment, but disclose the relationship in the engagement final communication.
- C. Notify the vendor of the potential conflict of interest.
- D. Notify the chief audit executive of the potential conflict of interest.

**[113] Gleim #: 2.3.43 -- Source: CIA 1194 I-51**

An internal audit activity is currently undergoing its first external quality assurance review since its formation three years ago. From interviews, the review team is informed of certain internal auditor activities over the past year. Which of the following activities could affect the quality assurance review team's evaluation of the objectivity of the internal auditors?

- A. One internal auditor told the review team that, during an engagement to review the payroll function, the payroll manager approached the auditor. The manager indicated the need for an accountant to prepare financial statements for the manager's part-time business. The internal auditor agreed to perform this work for a reduced fee during non-work hours.
- B. During an engagement to review the construction of a building addition to the organization's headquarters, the vice president of facilities management gave the internal auditor a commemorative mug with the organization's logo. These mugs were distributed to all employees present at the ground-breaking ceremony.
- C. After reviewing the installation of a data processing system, the internal auditor made recommendations on standards of control. Three months after completion of the engagement, the engagement client requested the internal auditor's review of certain procedures for adequacy. The internal auditor agreed and performed this review.
- D. An internal auditor's participation was requested on a task force to reduce the organization's inventory losses from theft and shrinkage. This is the first consulting assignment undertaken by the internal audit activity. The internal auditor's role is to advise the task force on appropriate control techniques.

**[114] Gleim #: 2.3.44 -- Source: CIA 594 I-16**

An internal auditor's objectivity could be compromised in all of the following situations except

- A. A conflict of interest.
- B. An engagement client's familiarity with the internal auditor due to lack of rotation in assignments.
- C. The internal auditor's assumption of operational duties on a temporary basis.
- D. Reliance on an outside service provider when appropriate.

**[115] Gleim #: 2.4.45 -- Source: Publisher**

George is the new internal auditor for XYZ Corporation. George was in charge of payroll for XYZ just 10 months ago. Performing what services in regard to payroll is considered an impairment of independence or objectivity if performed by George?

- A. Consulting services.
- B. Assurance services.
- C. Assurance or consulting services.
- D. Neither assurance nor consulting services.

**[116] Gleim #: 2.4.46 -- Source: CIA 597 I-52**

Independence is most likely impaired by an internal auditor's

- A. Continuation on an engagement at a division for which (s)he will soon be responsible as the result of a promotion.
- B. Reduction of the scope of an engagement due to budget restrictions.
- C. Participation on a task force that recommends standards for control of a new distribution system.
- D. Review of a purchasing agent's contract drafts prior to their execution.

**[117] Gleim #: 2.4.47 -- Source: CIA 1195 I-47**

Management has requested the internal audit activity to perform an engagement to recommend procedures and policies for improving management control over the telephone marketing operations of a major division. The chief audit executive should

- A. Not accept the engagement because recommending controls would impair future objectivity regarding this operation.
- B. Not accept the engagement because internal audit activities are presumed to have expertise regarding accounting controls, not marketing controls.
- C. Accept the engagement, but indicate to management that, because recommending controls impairs independence, future engagements in the area will be impaired.
- D. Accept the engagement because objectivity will not be impaired.

**[118] Gleim #: 2.4.48 -- Source: CIA 592 I-3**

When faced with an imposed scope limitation, the chief audit executive should

- A. Refuse to perform the engagement until the scope limitation is removed.
- B. Communicate the potential effects of the scope limitation to the audit committee of the board of directors.
- C. Increase the frequency of engagements concerning the activity in question.
- D. Assign more experienced personnel to the engagement.

**[119] Gleim #: 2.4.49 -- Source: CIA 597 I-45**

In which of the following situations does an internal auditor potentially lack objectivity?

- A. An internal auditor reviews the procedures for a new electronic data interchange (EDI) connection to a major customer before it is implemented.
- B. A former purchasing assistant performs a review of internal controls over purchasing 4 months after being transferred to the internal auditing department.
- C. An internal auditor recommends standards of control and performance measures for a contract with a service organization for the processing of payroll and employee benefits.
- D. A payroll accounting employee assists an internal auditor in verifying the physical inventory of small motors.

**[120] Gleim #: 2.4.50 -- Source: CIA 597 I-62**

Which of the following activities is not presumed to impair the objectivity of an internal auditor?

- I. Recommending standards of control for a new information system application
- II. Drafting procedures for running a new computer application to ensure that proper controls are installed
- III. Performing reviews of procedures for a new computer application before it is installed

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

**[121] Gleim #: 2.4.51 -- Source: CIA 595 I-56**

The internal auditors must be able to distinguish carefully between a scope limitation and other limitations. Which of the following is not considered a scope limitation?

- A. The divisional management of an engagement client has indicated that the division is in the process of converting a major computer system and has indicated that the information systems portion of the planned engagement will have to be postponed until next year.
- B. The audit committee reviews the engagement work schedule for the year and deletes an engagement that the chief audit executive thought was important to conduct.
- C. The engagement client has indicated that certain customers cannot be contacted because the organization is in the process of negotiating a long-term contract with the customers and they do not want to upset the customers.
- D. None of the answers are correct.

**[122] Gleim #: 2.4.52 -- Source: CIA 1195 I-44**

Which of the following combinations best illustrates a scope limitation and the appropriate response by the CAE?

	<u>Nature of Limitation</u>	<u>Internal Auditing Action</u>
A.	Engagement client limits scope based upon proprietary information	Report only to the controller
B.	Engagement client will not provide access to records needed for approved work schedule	Report to the board
C.	Engagement client requests that the engagement be delayed for 2 weeks to allow it to close its books	Report directly to the CEO and controller
D.	Engagement client will not allow internal auditor to contact major customers as part of an engagement to evaluate the efficiency of operations	No reporting needed because the operational engagement concerns operational efficiency

**[123] Gleim #: 2.4.53 -- Source: Publisher**

Prior to performing consulting services, the Chief Audit Executive should obtain approval from

- A. The audit committee.
- B. The board of directors.
- C. The chief executive officer.
- D. The external auditor.

**[124] Gleim #: 2.4.54 -- Source: Publisher**

Independence and objectivity may be impaired if assurance services are provided within one year after a formal consulting engagement. What steps can be taken to minimize the effects of this kind of impairment?

- I. Assigning different auditors to perform each of the services
  - II. Establishing independent management and supervision
  - III. Defining separate accountability for the results of projects
  - IV. Disclosing the presumed impairment
- 
- A. I and III only.
  - B. I, III, and IV only.
  - C. II, III, and IV only.
  - D. I, II, III, and IV.



**[125] Gleim #: 2.4.55 -- Source: CIA 1195 I-55**

During the course of an engagement, an internal auditor makes a preliminary determination that a major division has been inappropriately capitalizing research and development expense. The engagement is not yet completed, and the internal auditor has not documented the problem or determined that it really is a problem. However, the internal auditor is informed that the chief audit executive has received the following communication from the president of the organization:

“The controller of Division B informs me that you have discovered a questionable account classification dealing with research and development expense. We are aware of the issue. You are directed to discontinue any further investigation of this matter until informed by me to proceed. Under the confidentiality standard of your profession, I also direct you not to communicate with the outside auditors regarding this issue.”

Which of the following is an appropriate action for the CAE to take regarding the questionable item?

- A. Immediately report the communication to The Institute of Internal Auditors and ask for an ethical interpretation and guidance.
- B. Inform the president that this scope limitation will need to be reported to the board.
- C. Continue to investigate the area until all the facts are determined and document all the relevant facts in the engagement records.
- D. Immediately notify the external auditors of the problem to avoid aiding and abetting a potential crime by the organization.

**[126] Gleim #: 2.4.56 -- Source: CIA 1196 I-4**

Which of the following statements is an appropriate reason for the internal audit activity not to participate in the systems development process?

- A. Recommendations prior to implementation will affect independence, and the internal auditors will not be able to perform an objective evaluation after the system is implemented.
- B. Participation will delay implementation of the project.
- C. Participation will cause the internal auditors to be labeled as partial owners of the application, and they will then have to share the blame for any problems that remain in the system.
- D. None of the answers are correct.

**[127] Gleim #: 2.4.57 -- Source: CIA 589 I-3**

An internal auditor who had been supervisor of the accounts payable section should not perform an assurance review of that section

- A. Because there is no way to measure a reasonable period of time in which to establish independence.
- B. Until a reasonable period of time has elapsed.
- C. Until after the next annual review by the external auditors.
- D. Until it is clear that the new supervisor has assumed the responsibilities.

**[128] Gleim #: 2.4.58 -- Source: CIA 593 I-43**

Assuming that the internal auditing staff possesses the necessary experience and training, which of the following services is most appropriate for a staff internal auditor to undertake?

- A. Substitute for the accounts payable supervisor while (s)he is on sick leave.
- B. Determine the profitability of alternative investment acquisitions and select the best alternative.
- C. As part of an evaluation team, review vendor accounting software internal controls and rank according to exposures.
- D. Participate in an internal audit of the accounting department shortly after transferring from the accounting department.

**[129] Gleim #: 2.4.59 -- Source: CIA 597 III-32**

Reengineering is the thorough analysis, fundamental rethinking, and complete redesign of essential business processes. The intended result is a dramatic improvement in service, quality, speed, and cost. An internal auditor's involvement in reengineering should include all of the following except

- A. Determining whether the process has senior management's support.
- B. Recommending areas for consideration.
- C. Developing audit plans for the new system.
- D. Directing the implementation of the redesigned process.

**[130] Gleim #: 2.4.60 -- Source: CIA 591 II-4**

A treasury department employee transferred to the internal audit activity of the same organization last month. The chief financial officer of the organization has suggested that, because of the employee's significant knowledge in this area, it would be a good idea for the employee to immediately begin an engagement to evaluate the treasury department. In this circumstance, the employee should

- A. Accept the engagement and begin work immediately.
- B. Discuss the need for such an engagement with the employee's former superior, the treasurer.
- C. Suggest that the engagement be performed by another member of the internal audit staff.
- D. Offer to prepare an engagement work program but suggest that interviews with the employee's former co-workers be conducted by other members of the internal audit staff.

**[131] Gleim #: 2.4.61 -- Source: CIA 592 I-1**

An activity appropriately performed by the internal audit activity is

- A. Designing systems of control.
- B. Drafting procedures for systems of control.
- C. Reviewing systems of control before implementation.
- D. Installing systems of control.

**[132] Gleim #: 2.4.62 -- Source: CIA 593 I-3**

Which of the following most seriously compromises the independence of the internal audit activity?

- A. Internal auditors frequently draft revised procedures for departments whose procedures have been criticized in an engagement communication.
- B. The chief audit executive has dual reporting responsibility to the organization's chief executive officer and the board of directors.
- C. The internal audit activity and the organization's external auditors engage in joint planning of total engagement coverage to avoid duplicating each other's work.
- D. The internal audit activity is included in the review cycle of the organization's contracts with other organizations before the contracts are executed.

**[133] Gleim #: 2.4.63 -- Source: CIA 1194 I-50**

An organization is planning to develop and implement a new computerized purchase order system in one of its manufacturing subsidiaries. The vice president of manufacturing has requested that internal auditors participate on a team consisting of representatives from finance, manufacturing, purchasing, and marketing. This team will be responsible for the implementation effort. Eager to take on this high profile project, the chief audit executive assigns a senior internal auditor to the project to assist "as needed." Assuming the senior internal auditor performed all of the following activities, which one will impair objectivity if the internal auditor is asked to review the purchase order system on a post-engagement basis?

- A. Helping to identify and define control objectives.
- B. Testing for compliance with system development standards.
- C. Reviewing the adequacy of systems and programming standards.
- D. Drafting operating procedures for the new system.

**[134] Gleim #: 2.4.64 -- Source: CIA 595 I-54**

The internal auditing activity encounters a scope limitation from senior management that will affect the activity's ability to meet its goals and objectives for a potential engagement client. The nature of the scope limitation should be

- A. Noted in the engagement working papers, but the engagement should be carried out as scheduled and the scope limitation worked around, if possible.
- B. Communicated to the external auditors so they can investigate the area in more detail.
- C. Communicated, preferably in writing, to the board.
- D. Communicated to management stating that the limitation will not be accepted because it would impair the internal audit activity's independence.

**[135] Gleim #: 2.4.65 -- Source: CIA 1184 I-31**

An internal auditor most likely will have a conflict of interest by providing an assurance service with regard to a

- A. Financial activity in which the internal auditor had been a key employee 5 years previously.
- B. Purchasing activity if a major supplier is owned by the internal auditor's brother-in-law.
- C. Data processing center for which the internal auditor had performed the service three times previously.
- D. Computer system for which the internal auditor had been the internal audit activity's representative on the design team.

**[136] Gleim #: 2.4.66 -- Source: CIA 1191 I-27**

The major reason for the internal auditor's involvement in information systems development is for the internal auditor to

- A. Gain familiarity with systems for use in subsequent reviews.
- B. Help assure that systems have adequate control procedures.
- C. Help minimize the cost and development time for new systems.
- D. Propose enhancements for subsequent development and implementation.

**[137] Gleim #: 2.4.67 -- Source: CIA 1190 I-38**

An appropriate internal auditing role in a feasibility study is to

- A. Serve on the task force for the preliminary survey.
- B. Ascertain if the feasibility study addresses cost-benefit relationships.
- C. Determine the requirements for preparing a manual of specifications.
- D. Participate in the drafting of recommendations for the computer acquisition and implementation.

**[138] Gleim #: 2.4.68 -- Source: CIA 596 I-51**

A multinational organization has an agreement with a value-added network (VAN) that provides the encoding and communications transfer for the organization's electronic data interchange (EDI) and electronic funds transfer (EFT) transactions. Before transfer of data to the VAN, the organization performs online preprocessing of the transactions. The internal auditor is responsible for assessing preprocessing controls. In addition, the agreement between the organization and the VAN states that the internal auditor is allowed to examine and report on the controls in place at the VAN on an annual basis. The contract specifies that access to the VAN can occur on a surprise basis during the second or third quarter of the fiscal year. This period was chosen so it would not interfere with processing during the VAN's peak transaction periods. This provision was not reviewed with internal auditing. The annual engagement work schedule approved by the board of directors specifies that a full review would be done during the current year. When the internal auditor called to arrange the annual control review during the third quarter, the VAN stated that it could not accommodate the internal auditor because the peak processing period started earlier than normal this year and all VAN personnel were occupied. This scope limitation, along with its potential effect, must be communicated to which one of the following?

- A. The organization's board of directors.
- B. The board of directors of the VAN.
- C. The board of directors of both the organization and the VAN.
- D. The limitation does not need to be communicated at the board of directors level.

**[139] Gleim #: 2.4.69 -- Source: Publisher**

If impairments to independence or objectivity exist prior to commencement of the consulting engagement or develop during the engagement, what action should be taken?

- A. Disclosure should be made immediately to management.
- B. Disclosure should be made immediately to the board.
- C. Disclosure should be made immediately to the audit committee.
- D. The internal auditor should withdraw from the engagement.

**[140] Gleim #: 2.4.70 -- Source: CIA 04 Model Exam I-41**

Which of the following activities undertaken by the internal auditor might be in conflict with the standard of independence?

- A. Risk management consultant.
- B. Product development team leader.
- C. Ethics advocate.
- D. External audit liaison.

**[141] Gleim #: 2.4.71 -- Source: CIA, adapted**

A consulting activity appropriately performed by the internal audit function is

- A. Designing systems of control.
- B. Drafting procedures for systems of control.
- C. Reviewing systems of control before implementation.
- D. Installing systems of control.

**[142] Gleim #: 3.1.1 -- Source: Publisher**

The scope of internal auditing work encompasses a systematic, disciplined approach to evaluating and improving the adequacy and effectiveness of all of the following processes except

- A. Risk management.
- B. Control.
- C. Financial statements.
- D. Governance.

**[143] Gleim #: 3.1.2 -- Source: Publisher**

Adequacy of risk management, control, and governance processes is present if management has planned and designed these processes in a manner that provides reasonable assurance that the organization's objectives and goals will be achieved efficiently and economically. Which of the following statements is not true regarding the efficient and economical achievement of the organization's objectives and goals?

- A. Economical performance accomplishes objectives and goals with minimal use of resources with no regard to risk exposure.
- B. Efficient performance accomplishes objectives and goals in a timely manner.
- C. Economical performance accomplishes objectives and goals with minimal use of resources commensurate with the risk exposure.
- D. Efficient performance accomplishes objectives and goals in an accurate and economical manner.

**[144] Gleim #: 3.1.3 -- Source: Publisher**

All of the following are primary objectives of the overall management process except

- A. Improving the effectiveness of risk management, control, and governance processes.
- B. Compliance with laws, regulations, ethical and business norms, and contracts.
- C. Identification of risk exposures and use of effective strategies to control them.
- D. Safeguarding of the organization's assets.

**[145] Gleim #: 3.1.4 -- Source: Publisher**

Which of the following is subject to the internal auditors' evaluations?

- I. The human resources function.
- II. The purchasing process.
- III. The manufacturing and production database system.

- A. I only.
- B. II only.
- C. I, II, and III.
- D. None of the answers are correct.

**[146] Gleim #: 3.1.5 -- Source: Publisher**

Which of the following is not a type of control?

- A. Preventive.
- B. Reactive.
- C. Detective.
- D. Directive.

**[147] Gleim #: 3.1.6 -- Source: CIA 1193 II-8**

Directors, management, external auditors, and internal auditors all play important roles in creating proper control processes. Senior management is primarily responsible for

- A. Establishing and maintaining an organizational culture.
- B. Reviewing the reliability and integrity of financial and operational information.
- C. Ensuring that external and internal auditors oversee the administration of the system of risk management and control processes.
- D. Implementing and monitoring controls designed by the board of directors.

**[148] Gleim #: 3.1.7 -- Source: CIA 587 I-26**

Which of the following possible engagement objectives would lead to a test of the efficiency of an organization's use of labor resources?

- A. To determine that all employees are paid in accordance with union wages.
- B. To determine that employees are assigned to work situations equivalent to their training and skill level.
- C. To determine that the quality of performance by labor meets organizational standards.
- D. To determine that only authorized employees are paid.

**[149] Gleim #: 3.1.8 -- Source: CIA 592 II-4**

Which of the following best describes the internal audit activity's purpose in evaluating the adequacy of risk management, control, and governance processes?

- A. To help determine the nature, timing, and extent of tests necessary to achieve engagement objectives.
- B. To ensure that material weaknesses in internal control are corrected.
- C. To determine whether the risk management, control, and governance processes provide reasonable assurance that the organization's objectives and goals are achieved efficiently and economically.
- D. To determine whether the risk management, control, and governance processes ensure that the accounting records are correct and that financial statements are fairly stated.

**[150] Gleim #: 3.1.9 -- Source: CIA 590 I-5**

The purpose of the internal audit activity's evaluation of the effectiveness of existing risk management processes is to determine that

- A. Management has planned and designed so as to provide reasonable assurance of achieving objectives and goals.
- B. Management directs processes so as to provide reasonable assurance of achieving objectives and goals.
- C. The organization's objectives and goals will be achieved efficiently and economically.
- D. The organization's objectives and goals will be achieved in an accurate and timely manner and with minimal use of resources.

**[151] Gleim #: 3.1.10 -- Source: CIA 592 I-9**

After using the same public accounting firm for several years, the board of directors retained another public accounting firm to perform the annual financial audit in order to reduce the annual audit fee. The new firm has now proposed a one-time engagement relating to the cost-effectiveness of the various operations of the business. The chief audit executive has been asked to advise management in making a decision on the proposal. An argument can be made that the internal audit activity is better able to perform such an engagement because

- A. External auditors may not possess the same depth of understanding of the organization as the internal auditors.
- B. Internal auditors are required to be objective in performing engagements.
- C. Engagement procedures used by internal auditors are different from those used by external auditors.
- D. Internal auditors will not be vitally concerned with fraud and waste.

**[152] Gleim #: 3.1.11 -- Source: CIA 1196 I-56**

A manufacturer has been expanding rapidly and is considering adding a new production line. Employees are currently working double shifts and receiving large amounts of overtime pay. Demand for all of the organization's products is currently high, but management worries about demand fluctuations with changes in the economy and technological developments by competitors. Management is concerned with such issues as whether it is efficiently using its resources, whether it is expanding too rapidly or not rapidly enough, whether employee morale is decreasing, and whether future expansion should be financed internally or through debt. Of the following management requests, which is within the normal scope of work of the internal audit activity as stated in the Standards?

- A. Perform an independent evaluation of management's planning process as a basis for making recommendations.
- B. Talk with banks to identify financing alternatives and negotiate contract alternatives that will be presented to management for evaluation.
- C. Analyze financing alternatives and present the alternatives to the audit committee.
- D. Undertake a make-or-buy decision analysis to determine whether the organization should subcontract for part of its manufacturing versus adding capacity. Report the recommendation to management for approval.

**[153] Gleim #: 3.1.12 -- Source: CIA 586 I-9**

An adequate and effective system of internal control provides reasonable assurance that objectives and goals will be achieved. Controls may be preventive, detective, or directive. Which of the following is a detective control for the procurement function?

- A. Goods received are counted and compared with quantities on purchase order and receiving reports.
- B. The procurement function is organizationally separate from receiving, disbursing, and accounting.
- C. Review and approval of each procurement action is required prior to the final issuance of a purchase order.
- D. Prenumbered standard purchase order forms include all relevant terms required to be used in all applicable instances.

**[154] Gleim #: 3.1.13 -- Source: Publisher**

The following are primary objectives of the overall management process:

- I. Compliance with business norms
- II. Identification of risk exposures
- III. Credible operating information
- IV. Providing earnings estimates to securities analysts

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

**[155] Gleim #: 3.1.14 -- Source: CIA 1188 II-15**

Control by management is the result of

- A. Planning, organizing, and directing of organizational activities.
- B. Ascertaining needs, identifying alternative courses of action, setting standards for measuring performance, and comparing outcomes with predetermined standards.
- C. Authorizing and monitoring performance, and comparing actual performance with planned performance.
- D. Determining efficiency and economy of operations, including whether objectives and goals have been met.

**[156] Gleim #: 3.1.15 -- Source: CIA 592 II-16**

Controls should be designed to provide reasonable assurance that

- A. Organizational objectives and goals will be achieved economically and efficiently.
- B. Management's plans have not been circumvented by worker collusion.
- C. The internal audit activity's guidance and oversight of management's performance is accomplished economically and efficiently.
- D. Management's planning, organizing, and directing processes are properly evaluated.

**[157] Gleim #: 3.1.16 -- Source: Publisher**

Which of the following is *not* a type of control?

- A. Preventive.
- B. Reactive.
- C. Detective.
- D. Directive.

**[158] Gleim #: 3.2.17 -- Source: Publisher**

The governance process is also referred to as the way in which an organization chooses to conduct its affairs to meet four key responsibilities. Which of the following is a part of those responsibilities?

- I. Complying with society's legal and regulatory rules.
- II. Satisfying the generally accepted business norms of society.
- III. Providing overall benefit to society and enhancing the interests of the specific stakeholders.
- IV. Reporting fully and truthfully to its owners, regulators, other stakeholders, and the general public.

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

**[159] Gleim #: 3.2.18 -- Source: CIA**

Follow-up activity may be required to ensure that corrective action has taken place for certain observations made in an assurance engagement. The internal audit activity's responsibility to perform follow-up activities as required should be defined in the

- A. Internal audit activity's written charter.
- B. Mission statement of the audit committee.
- C. Engagement memo issued prior to each engagement.
- D. Purpose statement within applicable engagement communications.

**[160] Gleim #: 3.2.19 -- Source: CIA**

Internal auditors realize that, at times, corrective action is not taken even when agreed to by the appropriate parties. Thus, in an assurance engagement, internal auditors should

- A. Decide the extent of necessary follow-up work.
- B. Allow management to decide when to follow up because it is management's ultimate responsibility.
- C. Decide to conduct follow-up work only if management requests the internal auditor's assistance.
- D. Write a follow-up engagement communication with all observations and recommendations and their significance to the operations.

**[161] Gleim #: 3.2.20 -- Source: CIA 1191 I-44**

Why should organizations require assurance engagement clients to reply promptly and outline the corrective action that has been implemented on reported observations?

- A. To remove items from the pending list as soon as possible.
- B. To effect savings or to institute compliance as early as possible.
- C. To indicate concurrence with the engagement observations.
- D. To ensure that the engagement work schedule is kept up to date.

**[162] Gleim #: 3.2.21 -- Source: CIA**

Assume that the internal auditors' observations are so serious that, in their view, they require immediate action by management. Which of the following statements regarding the internal auditors' responsibility with respect to communicating results and follow-up are true?

- I. The conditions should be actively monitored by the internal auditors until corrected.
  - II. The initial observations should be communicated to senior management and the audit committee, even if the engagement is not complete.
  - III. The internal auditors should test the actions implemented by management to determine if they remedy the problem.
- 
- A. I only.
  - B. II only.
  - C. II and III only.
  - D. I, II, and III.

**[163] Gleim #: 3.2.22 -- Source: CIA 1193 II-42**

Upon reviewing the final communication of engagement results, senior management decided to assume the risk of not implementing corrective action on certain engagement observations. Evaluate the following and select the best alternative for the chief audit executive:

- A. Notify regulatory authorities of management's decision.
- B. Perform additional engagement procedures to further identify the policy violations.
- C. Conduct a follow-up engagement to determine whether corrective action was taken.
- D. Discuss the matter with senior management and possibly the board if the residual risk accepted is excessive.

**[164] Gleim #: 3.2.23 -- Source: CIA 1191 I-45**

The preliminary survey discloses that corrective action was never taken on a prior reported assurance engagement observation. Subsequent fieldwork confirms that the condition still exists. Which of the following courses of action should the internal auditors pursue?

- A. Take no action. To do otherwise would be an exercise of operational control.
- B. Discuss the issue with the chief audit executive. The problem requires an ad hoc solution.
- C. Discuss the issue with the person(s) responsible for the problem. (S)he or they should know how to solve the problem.
- D. Order the person(s) responsible to correct the problem. (S)he or they have had long enough to do so.



**[165] Gleim #: 3.2.24 -- Source: CIA 595 I-40**

An organization's internal auditors have conducted a series of assurance engagements. The resulting recommendations have been readily accepted by engagement clients because of the potential cost savings. Given the acceptance of the cost savings engagements and the scarcity of internal auditing resources, the manager in charge of these engagements also decided that follow-up action was not needed. The manager reasoned that cost savings should be sufficient to motivate the client to implement the engagement recommendations. Thus, follow-up was not scheduled as a regular part of the engagement plan. Was the manager's decision appropriate?

- A. Yes. Follow-up is not customary.
- B. No. The internal auditors should determine whether the client has appropriately implemented all of the engagement recommendations.
- C. No. Scarcity of resources is not a sufficient reason to omit follow-up.
- D. Yes. Given sufficient evidence of motivation by the client, follow-up is not needed.

**[166] Gleim #: 3.2.25 -- Source: Publisher**

What action should the chief audit executive take when (s)he believes that senior management has accepted a level of residual risk that is unacceptable to the organization?

- A. Report the matter to the board for resolution.
- B. Report the matter to an external authority.
- C. Discuss the matter with external auditors.
- D. Discuss the matter with senior management.

**[167] Gleim #: 3.2.26 -- Source: CIA 595 I-55**

Management has requested the audit department to conduct an audit of the implementation of its recently developed company code of conduct. In preparing for the audit, the auditor reviews the newly developed code and compares it with several others for comparable companies and concludes that the newly developed code has severe deficiencies. Based on this conclusion, the auditor should

- A. Plan an audit for the implementation of management's code of conduct and also for compliance with the "best practices" from the other codes since this represents the best available criteria.
- B. Report the nature of the deficiencies in a formal report to management.
- C. Inform management of the problems with the existing code and report that it would be inappropriate to conduct an audit until the code is revised to incorporate the "best practices" from industry.
- D. Conduct the audit as requested by management, reporting only noncompliance with the code.

**[168] Gleim #: 3.2.27 -- Source: Publisher**

The minimum role of the internal audit activity in the ethical culture of an organization is to

- A. Avoid active support of the ethical culture because of possible loss of independence.
- B. Evaluate the effectiveness of the organization's formal code of conduct.
- C. Assume accountability for the effectiveness of the governance process.
- D. Become the chief ethics officer.

**[169] Gleim #: 3.2.28 -- Source: CIA 04 Model Exam I-42**

The internal audit activity should contribute to the organization's governance process by evaluating the processes through which:

- I. Ethics and values are promoted.
- II. Effective organizational performance management and accountability are ensured.
- III. Risk and control information is communicated.
- IV. Activities of the external and internal auditors and management are coordinated.

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

**[170] Gleim #: 3.2.29 -- Source: CIA 04 Model Exam I-52**

Management and the board of directors are responsible for following up on observations and recommendations made by the external auditors. What role, if any, should the internal audit activity have in this process?

- A. The internal audit activity should have no role in this process in order to ensure independence.
- B. The internal audit activity should only become involved if the chief audit executive has sufficient evidence that the follow-up is not occurring.
- C. The internal audit activity should establish a monitoring process to review the adequacy and effectiveness of management's follow-up actions.
- D. The internal audit activity should become involved only if specifically requested by management or the board of directors.

**[171] Gleim #: 3.2.30 -- Source: CIA 04 Model Exam I-57**

Which of the following statements regarding corporate governance is not correct?

- A. Corporate control mechanisms include internal and external mechanisms.
- B. The compensation scheme for management is part of the corporate control mechanisms.
- C. The dilution of shareholders' wealth resulting from employee stock options or employee stock bonuses is an accounting issue rather than a corporate governance issue.
- D. The internal auditor of a company has more responsibility than the board for the company's corporate governance.

**[172] Gleim #: 3.2.31 -- Source: CIA 589 I-42**

Management is beginning to take corrective action on personnel department deficiencies reported during the last engagement performed by the internal audit activity. The internal auditor should

- A. Oversee the corrective action.
- B. Postpone the next engagement of the personnel department until the corrective action is completed.
- C. Refrain from judging whether the corrective action will remedy the deficiencies.
- D. Follow up to see that the corrective action satisfies the engagement recommendations.

**[173] Gleim #: 3.2.32 -- Source: CIA, adapted**

A follow-up review found that a significant internal control weakness had not been corrected. The chief audit executive (CAE) discussed this matter with senior management and was informed of management's willingness to accept the risk. The CAE should

- A. Do nothing further because management is responsible for deciding the appropriate action to be taken in response to reported engagement observations and recommendations.
- B. Initiate a fraud investigation to determine if employees had taken advantage of the internal control weakness.
- C. Inform senior management that the weakness must be corrected and schedule another follow-up review.
- D. Assess the reasons that senior management decided to accept the risk and inform the board of senior management's decision.

**[174] Gleim #: 3.2.33 -- Source: Publisher**

The governance process is also referred to as the way in which an organization chooses to conduct its affairs to meet four key responsibilities. Which of the following is a part of those responsibilities?

- I. Complying with society's legal and regulatory rules.
- II. Satisfying the generally accepted business norms of society.
- III. Providing overall benefit to society and enhancing the interests of the specific stakeholders.
- IV. Reporting fully and truthfully to its owners, regulators, other stakeholders, and the general public.

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

**[175] Gleim #: 3.2.34 -- Source: CIA 594 I-9**

A chief audit executive initiated a review of the organization's code of ethics and the environment for ethical decision making. Which of the following would most likely be considered inappropriate regarding the scope or recommendations of the engagement?

- A. A review of the code of ethics and a comparison with other such codes.
- B. A survey of employees, asking general questions regarding the ethical quality of the organization's decision making.
- C. Administration of an anonymous "ethics test" to determine if employees know of unethical behavior or have acted unethically themselves.
- D. A survey of the board of directors to determine their level of support for the organization's code of ethics.

**[176] Gleim #: 3.3.35 -- Source: Publisher**

Compliance programs assist organizations by doing which of the following?

- I. Evaluating business continuity.
- II. Determining director and officer liability.
- III. Evaluating disaster recovery plans.

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

**[177] Gleim #: 3.3.36 -- Source: Publisher**

An organization should establish compliance standards and procedures and should develop a written business code of conduct to be followed by its employees. Which of the following is true concerning business codes of conduct and the compliance standards?

- A. Compliance standards should be straightforward and reasonably capable of reducing the prospect of criminal conduct.
- B. The compliance standards should be codified in the charters of the audit committee.
- C. Companies with international operations should institute various compliance programs, based on selective geographic locations, that reflect appropriate local regulations.
- D. In order to prevent future legal liability, the code should consist of legal terms and definitions.

**[178] Gleim #: 3.3.37 -- Source: Publisher**

Which of the following is least likely to exemplify a good compliance environment?

- A. An international company that institutes a global compliance program that reflects local conditions, laws, and regulations.
- B. A company that creates an organizational chart, identifying personnel who are responsible for implementing compliance programs.
- C. A company whose code of conduct provides guidance to employees on relevant issues.
- D. A company that rewards employees for charging travel hours in order to take advantage of the tax benefits.

**[179] Gleim #: 3.3.38 -- Source: Publisher**

Environmental compliance information and training is most applicable, and should be provided, to which of the following departments?

- A. Sales.
- B. Human resources.
- C. Manufacturing.
- D. Information technology.

**[180] Gleim #: 3.3.39 -- Source: Publisher**

The chief compliance officer of an organization should report to

- A. The chief executive officer.
- B. The chief general counsel.
- C. The chief operating officer.
- D. The chief audit executive.

**[181] Gleim #: 3.3.40 -- Source: Publisher**

An organization should use due care not to delegate substantial discretionary authority to individuals the organization knows have a propensity to engage in illegal activities. Which of the following are steps an organization can take to ensure that such individuals are detected?

- I. Screening of applicants for employment at all levels for evidence of past wrongdoing, especially past criminal convictions within the company's industry.
- II. Asking professionals about any history of discipline in front of licensing boards.
- III. Performing non-consensual background checks on employees' or applicants' credit reports to ensure that they are financially sound and are unlikely to commit theft or fraud.

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

**[182] Gleim #: 3.3.41 -- Source: Publisher**

An ombudsperson is most effective when (s)he:

- I. Is located on-site.
- II. Reports to the chief compliance officer or the board of directors.
- III. Is located off-site.
- IV. Reports to no one, thus ensuring a whistle-blower's secrecy.

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

**[183] Gleim #: 3.3.42 -- Source: Publisher**

Employees have the most confidence in a hotline monitored by which of the following?

- A. An expert from the legal department, backed by a non-retaliation policy.
- B. An in-house representative, backed by a retaliation policy.
- C. An on-site ombudsperson, backed by a non-retaliation policy.
- D. An off-site attorney who can better protect attorney-client privilege.

**[184] Gleim #: 3.3.43 -- Source: Publisher**

An internal audit plan should include a review of the organization's compliance program and its procedures, including reviews to determine all but which of the following?

- A. The effectiveness of written materials.
- B. The receipt of communications by employees.
- C. The appropriate handling of detected violations.
- D. The performance of full background checks on employees and new hires.

**[185] Gleim #: 3.3.44 -- Source: Publisher**

Which of the following is an effective tool for uncovering unethical or illegal activity in an organization?

- A. The screening of applicants.
- B. The ethics interview.
- C. The background check.
- D. The ethics questionnaire.

**[186] Gleim #: 3.3.45 -- Source: Publisher**

Which of the following are forms of punishment for those who violate an organization's code of conduct?

- I. A warning.
- II. Loss of pay.
- III. Suspension.
- IV. Termination.

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

**[187] Gleim #: 3.3.46 -- Source: Publisher**

Termination or other discipline of employees may be limited by all of the following except

- A. Whistle-blower laws.
- B. Employer responsibilities with regard to employer good faith doctrines.
- C. Union contracts.
- D. Exceptions to the employee-at-will doctrine.

**[188] Gleim #: 3.3.47 -- Source: Publisher**

An organization with an effective regulatory compliance program displays which of the following characteristics?

- A. It punishes unethical or illegal activity based on seniority.
- B. It disciplines those who knew of the misconduct and did not report it, and holds harmless those who should have known, but did not know.
- C. After an offense is detected, the organization takes the necessary steps – short of modifying its entire program – to prevent further similar offenses.
- D. It is scrupulous in documenting employee discipline.

**[189] Gleim #: 3.3.48 -- Source: Publisher**

Which of the following is true regarding appropriate responses to an offense detected by an organization's compliance program?

- I. Disciplinary action taken against those engaged in misconduct is an appropriate response.
- II. Self-reporting the violation to the government is an appropriate response.
- III. Acceptance of responsibility for the violation is an appropriate response.
- IV. An appropriate response can lower the amount of an organization's court fines.

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

**[190] Gleim #: 3.3.49 -- Source: CIA 1196 I-27**

Which of the following statements best describes an internal auditor's responsibility for follow-up activities related to a previous engagement?

- A. The internal auditor should determine that corrective action has been taken and is achieving the desired results or that management or the board has assumed the risk of not taking corrective action.
- B. The internal auditor should determine that management has initiated corrective action, but the internal auditor has no responsibility to determine if the action is achieving the desired results. That determination is solely management's responsibility.
- C. The chief audit executive is responsible for scheduling follow-up activities only if directed to do so by senior management or the audit committee. Otherwise, follow-up is entirely discretionary.
- D. None of the answers are correct.

**[191] Gleim #: 3.3.50 -- Source: CIA 04 Model Exam I-33**

Using the internal audit department to coordinate regulatory examiners' efforts is beneficial to the organization because internal auditors can:

- A. Influence the regulatory examiners' interpretation of law to match corporate practice.
- B. Recommend changes in scope to limit bias by the regulatory examiners.
- C. Perform fieldwork for the regulatory examiners and thus reduce the amount of time regulatory examiners are on-site.
- D. Supply evidence of adequate compliance testing through internal audit workpapers and reports.

**[192] Gleim #: 3.3.51 -- Source: CIA 04 Model Exam I-39**

If the annual audit plan does not allow for adequate review of compliance with all material regulations affecting the company, the internal audit activity should:

- A. Ensure that the board of directors and senior management are aware of the limitation.
- B. Include a memo with the audit planning file listing the reasons for the lack of coverage.
- C. Document that regulations not included will be reviewed in the subsequent year.
- D. Decrease the scope of operational and financial audits to make additional audit time available.

**[193] Gleim #: 3.3.52 -- Source: Publisher**

Which of the following scenarios is considered to be whistleblowing?

- A. Discussing illegal investment accounts with the manager of a different division within the same organization.
- B. Disclosing potential harmful agents in a product released to the public with the board of directors.
- C. Assisting a government entity during a scheduled inspection of a warehouse in which violations of laws regarding working conditions are discovered.
- D. Discussing illegal hiring practices of the company with senior management within the chief audit executive's chain of command.

**[194] Gleim #: 3.3.53 -- Source: Publisher**

An organization's management is most likely not accountable to

- A. Regulators.
- B. The public.
- C. Competitors.
- D. Shareholders.

**[195] Gleim #: 3.3.54 -- Source: Publisher**

Which of the following is most likely to be an element of an effective regulatory compliance program?

- A. The internal audit activity should be assigned overall responsibility for overseeing the program.
- B. The program is communicated to employees in a video format on a one-time basis.
- C. The organization should use monitoring and auditing systems reasonably designed to detect criminal conduct.
- D. The organization should obtain as much information as possible when performing background checks on employees.

**[196] Gleim #: 4.1.1 -- Source: Publisher**

In the risk management process, management's view of the internal audit activity's role is likely to be determined by all of the following factors except

- A. Organizational culture.
- B. Preferences of the independent auditor.
- C. Ability of the internal auditing staff.
- D. Local conditions and customs of the country.

**[197] Gleim #: 4.1.2 -- Source: Publisher**

Internal auditors can play a more proactive role in assisting with the initial establishment of a risk management process for the organization. However, if such assistance exceeds normal assurance and consulting activities conducted by internal auditors, independence may be impaired. Which of the following impairs the independence of an internal auditor who had participated in the initial establishment of a risk management process?

- A. Developing assessments and reports on the risk management process.
- B. Managing the identified risks.
- C. Evaluating the adequacy and effectiveness of management's risk processes.
- D. Implementing controls to address the risks identified.

**[198] Gleim #: 4.1.3 -- Source: Publisher**

Which of the following are key objectives of a risk management process?

- I. Risks arising from business strategies and activities are identified and prioritized.
- II. Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
- III. Review of previous risk evaluation reports by management, internal auditors, external auditors, and any other sources that may have issued such reports.

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

**[199] Gleim #: 4.1.4 -- Source: Publisher**

Access to EH&S audit information is severely restricted by all but which of the following classifications?

- A. Attorney-client privilege.
- B. Accountant-client privilege.
- C. Attorney work product.
- D. Closely held.

**[200] Gleim #: 4.1.5 -- Source: Publisher**

Which of the following carries the least environmental, health, and safety risk?

- A. A malfunction at a nuclear plant that causes a blackout and results in a loss of public confidence.
- B. A chemical plant that disposes of waste in a nearby river.
- C. A hydroelectric power plant that is located several miles from a small town.
- D. A skyscraper construction site that has had several mishaps, including injuries and death.

**[201] Gleim #: 4.1.6 -- Source: Publisher**

A comprehensive plan to deal with business interruptions will provide for all but which of the following?

- A. Segregation of duties.
- B. Alternative site facilities.
- C. Business impact assessments.
- D. Procedures for restoring utility services.

**[202] Gleim #: 4.1.7 -- Source: Publisher**

Internal auditors can play a role in an organization's planning for business continuity and disaster recovery. Which of the following is a way in which the internal audit activity helps with the planning phase of a business continuity or disaster recovery plan?

- A. Assessing an organization's internal and external environment during the plan formulation process, including the turnover of management, changes in market conditions, and changes in controls.
- B. Examining the plan to determine that it reflects the operations that have been included and evaluated in the risk assessment process and contains sufficient internal control concerns and prescriptions.
- C. Verifying the adequacy of the plan to ensure the timely resumption of operations and processes after adverse circumstances.
- D. Examining the plan to determine whether it is structured to incorporate important changes that could take place over time.

**[203] Gleim #: 4.1.8 -- Source: Publisher**

The board's expectations of the internal audit activity regarding the risk management process should be

- A. Noted in the work programs for formal consulting engagements.
- B. Included in the business continuity plan.
- C. Codified in the charters of the internal audit activity and audit committee.
- D. Reviewed by the internal auditors immediately following a disaster.

**[204] Gleim #: 4.1.9 -- Source: Publisher**

Which of the following is a true statement about the activities of the chief audit executive (CAE) and the chief environmental officer?

- A. The chief environmental officer should evaluate whether the environmental auditors are in compliance with recognized professional auditing standards.
- B. The CAE should facilitate the reporting of significant environmental risk issues to the audit committee.
- C. The CAE does not review the performance of environmental audits when the environmental audit function reports to someone other than the CAE.
- D. The activities of the CAE and the chief environmental officer should be completely independent.

**[205] Gleim #: 4.1.10 -- Source: Publisher**

Risk management processes may be all of the following except

- A. Quantitative or subjective.
- B. Embedded in business units or centralized.
- C. Formalized even in small organizations.
- D. Formal or informal.

**[206] Gleim #: 4.1.11 -- Source: Publisher**

In forming an opinion on the adequacy of risk management processes, an internal auditor should consider

- I. Interviewing line and executive management.
- II. Reviewing previous risk evaluation reports.
- III. Reviewing corporate policies.
- IV. Assessing the appropriateness of reporting lines for risk monitoring activities.



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

**[207] Gleim #: 4.1.12 -- Source: Publisher**

The review by the internal auditors for design and completeness is part of which of their roles in the creation of a business continuity and disaster recovery plan?

- A. Risk analysis.
- B. Execution.
- C. Evaluation.
- D. Performance of assurance engagements.

**[208] Gleim #: 4.1.13 -- Source: Publisher**

During development of a company's business continuity and flood disaster recovery plan, the internal auditors arranged to meet to identify lessons learned from a disaster and the recovery operations. Which of the following time frames is usually best for this meeting?

- A. At least one year following the disaster.
- B. During the disaster (for real-time input).
- C. Within several months following the disaster.
- D. Immediately after the disaster.

**[209] Gleim #: 4.1.14 -- Source: Publisher**

What actions may internal auditors consider in a formal consulting engagement if they believe the objectives that should be pursued exceed those requested by management?

- I. Document the fact that the objectives were not pursued.
  - II. Include the objectives in a separate assurance engagement.
- 
- A. I only.
  - B. I or II but not both.
  - C. Neither I nor II.
  - D. Both I and II.

**[210] Gleim #: 4.1.15 -- Source: Publisher**

When internal auditors perform a consulting engagement, what is the best statement of their responsibility regarding risk?

- A. Be alert to the existence of significant risks.
- B. Consider only the risk consistent with engagement objectives.
- C. Address risk consistent with engagement objectives and be alert to certain other risks.
- D. None of the answers are correct.

**[211] Gleim #: 4.1.16 -- Source: CIA 04 Model Exam I-28**

When assessing the risk associated with an activity, an internal auditor should

- A. Determine how the risk should best be managed.
- B. Provide assurance on the management of the risk.
- C. Update the risk management process based on risk exposures.
- D. Design controls to mitigate the identified risks.

**[212] Gleim #: 4.1.17 -- Source: Publisher**

Risk management is

- A. A fundamental element of the definition of internal auditing.
- B. An element of the control environment.
- C. Unrelated to internal control.
- D. Synonymous with governance.

**[213] Gleim #: 4.1.18 -- Source: Publisher**

Which of the following is the most accurate term for a process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives?

- A. The internal audit activity.
- B. Control process.
- C. Risk management.
- D. Consulting service.

**[214] Gleim #: 4.1.19 -- Source: Publisher**

In any entity-wide risk management assessment, the CAE should include risks associated with which kind of the following activities?

- A. Environmental.
- B. Health.
- C. Safety.
- D. All of the answers are correct.

**[215] Gleim #: 4.1.20 -- Source: Publisher**

The Environmental, Health, and Safety Auditing Roundtable (EH&S; new name is The Auditing Roundtable) commissioned Richard L. Ratliff of Utah State University and a group of researchers to perform a study of environmental, health, and safety auditing. The study found that the EH&S audit function is a

- A. Technical field that is best placed within the internal audit function.
- B. Subjective field that is best placed within the internal audit function.
- C. Technical field that is best placed within the EH&S function.
- D. Subjective field that is best placed within the EH&S function.

**[216] Gleim #: 4.1.21 -- Source: Publisher**

Which of the following suggestions for the CAE related to EH&S auditing is false?

- A. The CAE should foster a close working relationship with the chief environmental officer and coordinate activities with the plan for environmental auditing.
- B. At least once every three years, the CAE should schedule a quality assurance review of the environmental audit function if it is organizationally independent of the internal audit function.
- C. The CAE should evaluate the organizational placement and independence of the environmental audit function to ensure that significant matters resulting from serious risks to the enterprise are reported up the chain of command.
- D. The CAE should evaluate whether the environmental auditors, who are not part of the CAE's organization, are in compliance with recognized professional auditing standards and a recognized code of ethics.

**[217] Gleim #: 4.1.22 -- Source: Publisher**

With respect to business interruptions, what is the most crucial element of business recovery?

- A. Information systems backup.
- B. Alternative communication systems and site facilities.
- C. Business impact assessments and resumption plans.
- D. Disaster recovery plan.

**[218] Gleim #: 4.1.23 -- Source: Publisher**

The audit objective when auditing an organization's business continuity and disaster recovery plan is to

- I. Verify that the plan is adequate to ensure the timely resumption of operations and processes after adverse circumstances.
- II. Verify it is structured to incorporate important changes that could take place over time.
- III. Verify that it reflects the current business operating environment.

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

**[219] Gleim #: 4.1.24 -- Source: Publisher**

Internal auditors should design the scope of work in a consulting engagement to ensure that all of the following will be maintained except

- A. Independence.
- B. Integrity.
- C. Credibility.
- D. Professionalism.

**[220] Gleim #: 4.1.25 -- Source: Publisher**

The internal auditor for a corporation has received a special request from management and believes that the objectives that should be pursued go beyond those requested by management. The auditor should

- A. Refuse to accept the engagement unless management can be persuaded to include the additional objectives in the consulting engagement.
- B. Include the objectives that the auditor feels are necessary in the current consulting engagement and inform management in the final communication of the engagement results.
- C. Document the fact that the objectives were not pursued and disclose that observation to the audit committee in a formal report.
- D. Try to persuade management to include the additional objectives in the consulting engagement.

**[221] Gleim #: 4.1.26 -- Source: Publisher**

Substantial risk exposures or material control weaknesses discovered during a formal consulting engagement should be brought to the attention of management. In some situations, the internal auditor's concerns also should be communicated to

- A. Executive management.
- B. Audit committee.
- C. Board of directors.
- D. All of the answers are correct.

**[222] Gleim #: 4.1.27 -- Source: CIA 04 Model Exam I-45**

Which of the following represents the best governance structure?

- | <u>Operating Management</u> | <u>Internal Auditing</u> | <u>Executive Management</u> |
|-----------------------------|--------------------------|-----------------------------|
| A. Responsibility for risk  | Oversight role           | Advisory role               |
| B. Oversight role           | Responsibility for risk  | Advisory role               |
| C. Responsibility for risk  | Advisory role            | Oversight role              |
| D. Oversight role           | Advisory role            | Responsibility for risk     |

**[223] Gleim #: 4.1.28 -- Source: CIA 04 Model Exam I-48**

Which of the following is **not** a role of the internal audit activity in best practice governance activities?

- A. Support the board in enterprise-wide risk assessment.
- B. Ensure the timely implementation of audit recommendations.
- C. Monitor compliance with the corporate code of conduct.
- D. Discuss areas of significant risks.

**[224] Gleim #: 4.1.29 -- Source: CIA 04 Model Exam I-53**

The primary reason that a bank would maintain a separate compliance function is to:

- A. Better manage perceived high risks.
- B. Strengthen controls over the bank's investments.
- C. Ensure the independence of line and senior management.
- D. Better respond to shareholder expectations.

**[225] Gleim #: 4.1.30 -- Source: CIA 04 Model Exam I-64**

Many organizations use electronic funds transfer to pay their suppliers instead of issuing checks. Regarding the risks associated with issuing checks, which of the following risk management techniques does this represent?

- A. Controlling.
- B. Accepting.
- C. Transferring.
- D. Avoiding.

**[226] Gleim #: 4.1.31 -- Source: CIA 04 Model Exam I-65**

Which of the following goals sets risk management strategies at the optimum level?

- A. Minimize costs.
- B. Maximize market share.
- C. Minimize losses.
- D. Maximize shareholder value.

**[227] Gleim #: 4.1.32 -- Source: CIA 04 Model Exam I-84**

An internal auditor plans to conduct an audit of the adequacy of controls over investments in new financial instruments. Which of the following would **not** be required as part of such an engagement?

- A. Determine if policies exist which describe the risks the treasurer may take and the types of instruments in which the treasurer may make investments.
- B. Determine the extent of management oversight over investments in sophisticated instruments.
- C. Determine whether the treasurer is getting higher or lower rates of return on investments than are treasurers in comparable organizations.
- D. Determine the nature of controls established by the treasurer to monitor the risks in the investments.

**[228] Gleim #: 4.1.33 -- Source: CIA 596 III-22**

When the executive management of an organization decided to form a team to investigate the adoption of an activity-based costing (ABC) system, an internal auditor was assigned to the team. The best reason for including an internal auditor is the internal auditor's knowledge of

- A. Activities and cost drivers.
- B. Information processing procedures.
- C. Current product cost structures.
- D. Risk management processes.

**[229] Gleim #: 4.1.34 -- Source: Publisher**

Risk management is the responsibility of management. The role of the internal audit activity in the risk management process may include which of the following?

- I. Monitoring activities.
- II. Evaluating the risk management process as part of the engagement plan.
- III. Participation on oversight committees, monitoring of activities, and status reporting.
- IV. Managing and coordinating the process.

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

**[230] Gleim #: 4.1.35 -- Source: Publisher**

If management has not established a risk management process for the organization, the internal auditors should suggest establishment of such a process. The function that the internal auditors preferably should perform in the initial establishment of a risk management process is

- A. A proactive role that supplements traditional assurance activities.
- B. Assumption of ownership of risks.
- C. Responsibility for the management of the risks identified.
- D. An oversight role to determine that adequate and effective processes are in place.

**[231] Gleim #: 4.1.36 -- Source: Publisher**

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems. With respect to assessing the adequacy of risk management processes, internal auditors most likely should

- A. Recognize that organizations should use similar techniques for managing risk.
- B. Become satisfied that the key objectives of risk management processes are being met.
- C. Determine the level of risks acceptable to the organization.
- D. Treat the evaluation of risk management processes in the same manner as the risk analysis used to plan engagements.

**[232] Gleim #: 4.1.37 -- Source: CIA 1192 II-5**

Internal auditors should review the means of physically safeguarding assets from losses arising from

- A. Misapplication of accounting principles.
- B. Procedures that are not cost justified.
- C. Exposure to the elements.
- D. Underusage of physical facilities.

**[233] Gleim #: 4.1.38 -- Source: Publisher**

If an organization has no established risk management process, internal auditors should

- A. Establish a risk management process based on industry norms.
- B. Formulate hypothetical results of possible consequences resulting from risks not being managed.
- C. Inform regulators that the organization is guilty of an infraction.
- D. Inform management and suggest corrective actions.

**[234] Gleim #: 4.1.39 -- Source: CIA 591 II-2**

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

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

**[235] Gleim #: 4.2.40 -- Source: Publisher**

Security of all critical information of an organization, regardless of the media in which the information is stored, is the responsibility of

- A. Shareholders.
- B. IT department.
- C. Management.
- D. All employees.

**[236] Gleim #: 4.2.41 -- Source: Publisher**

Who determines whether the internal audit activity has access to resources sufficient to evaluate the security of information?

- A. The chief executive officer.
- B. The chief audit executive.
- C. The external auditor.
- D. The chief operating officer.

**[237] Gleim #: 4.2.42 -- Source: Publisher**

Which of the following is part of an organization's governing body's role in protecting against privacy threats?

- A. Establishing a privacy framework.
- B. Identifying the information gathered by the organization that is deemed personal or private.
- C. Identifying the methods used to collect information.
- D. Determining whether the use of the information collected is in accordance with its intended use and the laws.

**[238] Gleim #: 4.2.43 -- Source: Publisher**

Freedom from monitoring best describes

- A. Personal privacy.
- B. Privacy of space.
- C. Privacy of communication.
- D. Privacy of information.

**[239] Gleim #: 4.2.44 -- Source: Publisher**

What should the internal auditor consider to ensure that information security and data protection controls are in place?

- A. The applicable laws, regulations, and policies relating to privacy.
- B. Liaison with in-house legal counsel.
- C. Liaison with information technology specialists.
- D. All of the answers are considerations for information security and data protection controls.

**[240] Gleim #: 4.2.45 -- Source: Publisher**

Personal information may include

- I. Blood type
- II. Social status
- III. Loan records
- IV. Disciplinary actions

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

**[241] Gleim #: 4.2.46 -- Source: Publisher**

Which of the following statements is false with respect to information security?

- A. Internal auditors should determine that management and the board, audit committee, or other governing body have a clear understanding that information security is the responsibility of the internal audit activity.
- B. The chief audit executive should determine that the internal audit activity possesses, or has access to, competent auditing resources to evaluate information security and associated risk exposures.
- C. Internal auditors should periodically assess the organization's information security practices and recommend, as appropriate, enhancements to, or implementation of, new controls and safeguards.
- D. Internal auditors should assess the effectiveness of preventive, detective, and mitigative measures against past attacks, as deemed appropriate, and future attempts or incidents deemed likely to occur.

**[242] Gleim #: 4.2.47 -- Source: Publisher**

The internal auditors' ultimate responsibility for information security includes

- A. Identifying technical aspects, risks, processes, and transactions to be examined.
- B. Determining the scope and degree of testing to achieve engagement objectives.
- C. Periodically assessing information security practices.
- D. Documenting engagement procedures.

**[243] Gleim #: 5.1.1 -- Source: CIA 1190 I-49**

An internal auditor fails to discover an employee fraud during an assurance engagement. The nondiscovery is most likely to suggest a violation of the Professional Practices Framework if it was the result of a

- A. Failure to perform a detailed review of all transactions in the area.
- B. Determination that any possible fraud in the area would not involve a material amount.
- C. Determination that the cost of extending procedures in the area would exceed the potential benefits.
- D. Presumption that the internal controls in the area were adequate and effective.

**[244] Gleim #: 5.1.2 -- Source: CMA 682 3-17**

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

**[245] Gleim #: 5.1.3 -- Source: Publisher**

The chief audit executive's responsibility for assessing and reporting on control processes includes

- A. Communicating to senior management and the audit committee an annual judgment about internal control.
- B. Overseeing the establishment of internal control processes.
- C. Maintaining the organization's governance processes.
- D. Arriving at a single assessment based solely on the work of the internal audit activity.

**[246] Gleim #: 5.1.4 -- Source: CMA 1288 3-25**

The primary responsibility for overseeing the establishment and administration of internal control rests with

- A. The external auditor.
- B. Senior management.
- C. The controller.
- D. The treasurer.

**[247] Gleim #: 5.1.5 -- Source: CMA 1284 3-22**

Which of the following is most likely to be regarded as a strength in internal control in a traditional external audit?

- A. The performance of financial audits by the internal audit activity.
- B. The performance of operational engagements by internal auditors.
- C. The routine supervisory review of production planning.
- D. The existence of a preventive maintenance program.

**[248] Gleim #: 5.1.6 -- Source: CIA 592 II-16**

Controls should be designed to ensure that

- A. Operations are performed efficiently.
- B. Management's plans have not been circumvented by worker collusion.
- C. The internal audit activity's guidance and oversight of management's performance is accomplished economically and efficiently.
- D. Management's planning, organizing, and directing processes are properly evaluated.

**[249] Gleim #: 5.1.7 -- Source: CIA 1192 II-15**

Which of the following best defines control?

- A. Control is the result of proper planning, organizing, and directing by management.
- B. Controls are statements of what the organization chooses to accomplish.
- C. Control is provided when cost-effective measures are taken to restrict deviations to a tolerable level.
- D. Control accomplishes objectives and goals in an accurate, timely, and economical fashion.

**[250] Gleim #: 5.1.8 -- Source: CIA 1188 I-16**

Controls that are designed to provide management with assurance of the realization of specified minimum gross margins on sales are

- A. Directive controls.
- B. Preventive controls.
- C. Detective controls.
- D. Output controls.

**[251] Gleim #: 5.1.9 -- Source: CIA 1189 II-7**

The procedure requiring preparation of a prelisting of incoming cash receipts, with copies of the prelist going to the cashier and to accounting, is an example of which type of control?



- A. Preventive.
- B. Corrective.
- C. Detective.
- D. Directive.

**[252] Gleim #: 5.1.10 -- Source: CIA 1192 I-18**

Controls may be classified according to the function they are intended to perform, for example, as detective, preventive, or directive. Which of the following is a directive control?

- A. Monthly bank statement reconciliations.
- B. Dual signatures on all disbursements over a specific amount.
- C. Recording every transaction on the day it occurs.
- D. Requiring all members of the internal audit activity to be CIAs.

**[253] Gleim #: 5.1.11 -- Source: CIA 1195 I-67**

Internal auditors regularly evaluate controls. Which of the following best describes the concept of control as recognized by internal auditors?

- A. Management regularly discharges personnel who do not perform up to expectations.
- B. Management takes action to enhance the likelihood that established goals and objectives will be achieved.
- C. Control represents specific procedures that accountants and internal auditors design to ensure the correctness of processing.
- D. Control procedures should be designed from the "bottom up" to ensure attention to detail.

**[254] Gleim #: 5.1.12 -- Source: CIA 04 Model Exam I-46**

Which of the following is **not** a responsibility of the chief audit executive?

- A. To communicate the internal audit activity's plans and resource requirements to senior management and the board for review and approval.
- B. To coordinate with other internal and external providers of audit and consulting services to ensure proper coverage and minimize duplication.
- C. To oversee the establishment, administration, and assessment of the organization's system of risk management processes.
- D. To follow up on whether appropriate management actions have been taken on significant reported risks.

**[255] Gleim #: 5.1.13 -- Source: CIA 04 Model Exam I-55**

To minimize potential financial losses associated with physical assets, the assets should be insured in an amount that is:

- A. Supported by periodic appraisals.
- B. Determined by the board of directors.
- C. Automatically adjusted by an economic indicator such as the consumer price index.
- D. Equal to the book value of the individual assets.

**[Fact Pattern #5]**

The chief audit executive (CAE) of a mid-sized internal audit activity (IAA) was concerned that management might outsource the internal auditing function. Thus, the CAE adopted a very aggressive program to promote the IAA within the organization. The CAE planned to present the results to senior management and the board and recommend modification of the IAA's charter after using the new program. The following lists six actions the CAE took to promote a positive image within the organization:

1. Engagement assignments concentrated on efficiency. The engagements focused solely on cost savings, and each engagement communication highlighted potential costs to be saved. Negative observations were omitted. The focus on efficiency was new, but the engagement clients seemed very happy.
2. Drafts of all engagement communications were carefully reviewed with the engagement clients to get their input. Their comments were carefully considered when developing the final engagement communication.
3. The information technology internal auditor participated as part of a development team to review the control procedures to be incorporated into a major computer application under development.
4. Given limited resources, the engagement manager performed a risk assessment to establish engagement work schedule priorities. This was a marked departure from the previous approach of ensuring that all operations are evaluated on at least a three-year interval.
5. To save time, the CAE no longer required that a standard internal control questionnaire be completed for each engagement.
6. When the internal auditors found that the engagement client had not developed specific criteria or data to evaluate operations, the internal auditors were instructed to perform research, develop specific criteria, review the criteria with the engagement client, and if acceptable, use them to evaluate the engagement client's operations. If the engagement client disagreed with the criteria, a negotiation took place until acceptable criteria could be agreed upon. The engagement communication commented on the engagement client's operations in conjunction with the agreed-upon criteria.

**[256] Gleim #: 5.1.14 -- Source: CIA 595 I-38**

(Refers to Fact Pattern #5)

Is Action 5 inappropriate?

- A. Yes. Internal control should be evaluated on every engagement, but the internal control questionnaire is not the mandated approach to evaluate the controls.
- B. No. Internal auditors may omit necessary procedures if there is a time constraint. It is a matter of professional judgment.
- C. Yes. Internal control should be evaluated on every engagement, and the internal control questionnaire is the most efficient method to do so.
- D. No. Internal auditors are not required to fill out internal control questionnaires on every engagement.

**[257] Gleim #: 5.1.15 -- Source: CIA 1193 II-13**

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. Participation levels support continuation of individual programs.
- D. Benefit payments, when appropriate, are accurate and timely.

**[Fact Pattern #6]**

You are an internal auditing supervisor who is reviewing the working papers of a staff internal auditor's overall examination of the firm's sales function. The pages are not numbered or cross-referenced. Furthermore, the working papers were dropped and reassembled at random before they were brought to you. You decide to put the working papers in the proper order according to the Standards. The first stage of this activity is to identify each page as a part of (A) the preliminary survey, (B) the review of the adequacy of control processes, (C) the review for effectiveness of control processes, or (D) the review of results.

**[258] Gleim #: 5.1.16 -- Source: CIA 1190 I-21**

(Refers to Fact Pattern #6)

The first page the supervisor selects documents a test of controls performed during the course of the engagement. This page belongs with which activity?

- A. Preliminary survey.
- B. Review for adequacy of control processes.
- C. Review for effectiveness of control processes.
- D. Review of results.

**[259] Gleim #: 5.1.17 -- Source: CIA 1190 I-23**

(Refers to Fact Pattern #6)

The third page the supervisor selects is a blank copy of the sales contract form now in use by the organization. Annotated on the form in several places are the words "key control" followed by a brief explanation. The supervisor recognizes the writing as that of the staff internal auditor who performed the engagement. This document belongs with which activity?

- A. Preliminary survey.
- B. Review for adequacy of control processes.
- C. Review for effectiveness of control processes.
- D. Review of results.

**[260] Gleim #: 5.1.18 -- Source: Publisher**

When an organization has strong internal control, management can expect various benefits. The benefit least likely to occur is

- A. Reduced cost of an external audit.
- B. Elimination of employee fraud.
- C. Improvement in the reliability and integrity of information for decision-making purposes.
- D. Some assurance of compliance with governmental regulations.

**[261] Gleim #: 5.2.19 -- Source: Publisher**

Which group is charged with overseeing the establishment, administration, and evaluation of the processes of risk management and control?

- A. Operating managers.
- B. Internal auditors.
- C. External auditors.
- D. Senior management.

**[262] Gleim #: 5.2.20 -- Source: CIA 597 III-35**

Control self-assessment (CSA) is a process that involves employees in assessing the adequacy of controls and identifying opportunities for improvement within an organization. Which of the following are reasons to involve employees in this process?

- I. Employees become more motivated to do their jobs right.
- II. Employees are objective about their jobs.
- III. Employees can provide an independent assessment of internal controls.
- IV. Managers want feedback from their employees.

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

**[263] Gleim #: 5.2.21 -- Source: Publisher**

Which of the following is an outcome that can be derived from control self-assessment (CSA) methodologies?

- A. Formal, "hard" controls are more easily identified and evaluated.
- B. Management will become involved in and knowledgeable about the self-assessment process by serving as facilitators, scribes, and reporters for the work teams.
- C. Auditor's responsibility for the risk management and control processes of the organization will be reinforced.
- D. People are motivated to take "ownership" of the control processes in their units and corrective actions taken by work teams are often more effective and timely.

**[264] Gleim #: 5.2.22 -- Source: Publisher**

Of the three primary forms of CSA programs, which one is designed to gather information from work teams representing different levels in the business unit or function?

- A. Auditor-produced analysis.
- B. Facilitated team workshops.
- C. Surveys.
- D. Management-produced analysis.

**[265] Gleim #: 5.2.23 -- Source: Publisher**

CSA may be conducted using a facilitated team workshop approach. Which team workshop format begins by listing all possible barriers, obstacles, threats, and exposures that might prevent achieving an objective?

- A. Objective-based format.
- B. Control-based format.
- C. Process-based format.
- D. Risk-based format.

**[266] Gleim #: 5.2.24 -- Source: Publisher**

The element(s) of control self-assessment (CSA) based on a facilitated team workshop approach include

- I. Treating participating employees as process owners
- II. Taking surveys of employees regarding risks and controls
- III. Interviewing employees separately in the field

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

**[267] Gleim #: 5.2.25 -- Source: Publisher**

Which of the following statements about CSA is false?

- A. CSA is usually an informal and undocumented process.
- B. In its purest form, CSA integrates business objectives and risks with control processes.
- C. CSA is also referred to as control/risk self-assessment or CRSA.
- D. Most implemented CSA programs share some key features and goals.

**[268] Gleim #: 5.2.26 -- Source: Publisher**

CSA may be conducted using a facilitated team workshop approach. In which team workshop format does the facilitator identify the key risks and controls before the beginning of the workshop?

- A. Control-based format.
- B. Objective-based format.
- C. Risk-based format.
- D. Process-based format.

**[269] Gleim #: 5.2.27 -- Source: Publisher**

CSA may be conducted using a facilitated team workshop format approach. The aim of which team workshop format is to decide whether the control procedures are working effectively and are resulting in residual risks within an acceptable level?

- A. Control-based format.
- B. Objective-based format.
- C. Process-based format.
- D. Risk-based format.

**[270] Gleim #: 5.2.28 -- Source: Publisher**

Which of the three primary forms of CSA programs should be used if management wants to minimize the time spent and costs incurred in gathering the information?

- A. Management-produced analysis.
- B. Facilitated team workshop.
- C. Auditor-produced analysis.
- D. Survey.

**[271] Gleim #: 5.2.29 -- Source: Publisher**

Which one of the three primary types of CSA programs allows for internal auditor involvement to synthesize this analysis with other information to enhance the understanding about controls and to share the knowledge?

- A. Facilitated team workshop.
- B. Management-produced analysis.
- C. Survey.
- D. Auditor-produced analysis.

**[272] Gleim #: 5.2.30 -- Source: Publisher**

In most programs, the internal audit's investment in the organization's CSA efforts is how large?

- I. Internal audit sponsors, designs, implements, and in effect owns the process; conducts the training; supplies the facilitators, scribes, and reporters; and orchestrates the participation of management and work teams.
  - II. Internal audit serves as an interested party and consultant to the whole process and as ultimate verifier of evaluations produced by the teams.
- A. I only.
  - B. II only.
  - C. Usually somewhere between I and II.
  - D. Never more than II, and sometimes less.

**[273] Gleim #: 5.2.31 -- Source: Publisher**

Which form(s) of CSA program(s) assumes that managers and members of the work teams possess an understanding of risks and controls concepts?

- A. The management-produced analysis form.
- B. The management-produced analysis and facilitated team workshop forms.
- C. The management-produced analysis and survey forms.
- D. All self-assessment programs.

**[274] Gleim #: 5.3.32 -- Source: Publisher**

In accordance with the applicable law, management conducts its own assessment of controls as the basis for a public report. What is the internal auditor's role with respect to internal controls?

- A. Internal auditors have no responsibility for internal control assessment.
- B. Internal auditors should form their opinion based on their assessment of controls.
- C. Internal auditors should evaluate management's assessment and supporting documentation.
- D. Internal auditors should evaluate management's assessment and supporting documentation against their own assessment and discuss any differences with management.

**[275] Gleim #: 5.3.33 -- Source: Publisher**

Which of the following is the role that the internal auditor most likely cannot accept with respect to processes over interim financial reporting?

- A. Initial designer of the required process.
- B. Independent assessor of the process.
- C. Certifier of the financial statements.
- D. Coordinator or liaison between management and its auditors.

**[276] Gleim #: 5.3.34 -- Source: Publisher**

Status as an "ex-officio" or unofficial member of the "disclosure committee" normally avoids which kind of problems for the CAE?

- A. Disclosure problems.
- B. Internal control problems.
- C. Independence problems.
- D. Audit committee problems.

**[277] Gleim #: 5.3.35 -- Source: CIA 596 I-5**

Management often requires the internal audit activity's involvement with quarterly financial statements that are made public or used internally. Which one of the following is generally not a reason for such involvement?

- A. Management may be concerned about its reputation in the financial markets.
- B. Management may be concerned about potential penalties that could occur if quarterly financial statements that are made public are misstated.
- C. The Standards state that internal auditors should be involved with reviewing quarterly financial statements.
- D. Management may perceive that having quarterly financial information examined by the internal auditors enhances its value for internal decision making.

**[278] Gleim #: 5.4.36 -- Source: Publisher**

The chief audit executive (CAE) typically provides which of the following to the audit committee?

- A. Overall evaluation of the adequacy and effectiveness of the internal control processes.
- B. A conclusion about the coverage and adequacy of the internal auditing report.
- C. The internal audit activity's working papers.
- D. The committee's report to the governing board.

**[279] Gleim #: 5.4.37 -- Source: Publisher**

Because of the increase in published reports of corporate governance failures, senior management and the audit committee are requesting additional services from internal auditors. These most likely include evaluation of the

- A. Reliability of external auditors.
- B. Integrity of senior management.
- C. Internal controls.
- D. Accountability of senior management.

**[280] Gleim #: 5.4.38 -- Source: Publisher**

The most effective internal control guidance available today is the COSO's Internal Control – Integrated Framework. Which of the following is one of its conclusions?

- A. Only management's participation is needed for control to be effective.
- B. The control framework is tied to the business objectives, so it is not flexible enough to be adapted without a major undertaking.
- C. Internal control is limited to accounting controls.
- D. Operational efficiency and effectiveness are important aspects of the business.

**[281] Gleim #: 5.4.39 -- Source: Publisher**

The internal audit activity's work plans and specific assurance engagements begin with

- A. A careful identification of the exposures facing the organization.
- B. Identification of potential lack of goal congruence in the organization.
- C. Interpretation of accounting pronouncements.
- D. Assessment of internal control over the accounting function.

**[282] Gleim #: 5.4.40 -- Source: Publisher**

The chief audit executive's (CAE) assessment of the effectiveness of the organization's system of controls must include an evaluation of whether it has a strong ethical environment and culture. To complete this task, the CAE most likely must

- A. Examine whether board members have engaged in related-party transactions with the organization.
- B. Assess whether performance and incentive targets create excessive pressure for short-term results.
- C. Determine whether the organization has successfully implemented ISO 9000 standards.
- D. Determine whether the organization has a three-strikes-and-out policy concerning fraudulent financial reporting.

**[283] Gleim #: 5.4.41 -- Source: Publisher**

The most likely role of the chief audit executive (CAE) with regard to the financial reporting process is to

- A. Ensure that adequate resources have been committed to helping others with their responsibilities for financial reporting.
- B. Assess the reliability of the external auditor's work and report these conclusions to the relevant regulatory body.
- C. Provide explanations of the company's implementation of GAAP to the external auditor.
- D. Work closely with the external auditor during the field audit stage.

**[284] Gleim #: 5.4.42 -- Source: Publisher**

The CAE should provide to senior management and the audit committee assurance that

- A. The external auditors adequately designed and effectively executed their audit.
- B. All events in the financial report are accurate.
- C. All significant errors are prevented from occurring in the financial report.
- D. All incorrect assumptions and estimates are prevented from occurring in the financial report.

**[285] Gleim #: 5.4.43 -- Source: Publisher**

The CAE should consider many factors in supporting the organizations' governance process and the oversight responsibilities of the governing board and its audit committee regarding the reliability of financial reporting, corporate governance, and corporate control. Which consideration directly relates to governance?

- A. Evaluating the adequacy of controls over the accounting function.
- B. Evaluating the process of preparing journal entries.
- C. Ensuring the reasonableness of estimates.
- D. Reviewing pending litigation.

**[286] Gleim #: 5.4.44 -- Source: Publisher**

The chief audit executive assesses the organization's system of controls to determine whether it is effective. For this purpose, the CAE most likely must

- A. Examine the budget to ensure that all unfavorable variances are reasonable.
- B. Examine the hiring process to determine whether qualified people are hired promptly and new hires are adequately trained.
- C. Examine problems and come to a conclusion on how to resolve them.
- D. Audit the e-mail interactions of senior managers to assess whether communication is effective among them.

**[287] Gleim #: 5.4.45 -- Source: CIA 587 I-20**

Which of the following controls over computer processing is of least concern during an external audit of financial statements?

- A. The edit and validation routines in a computer program.
- B. Procedures requiring control totals for input data.
- C. Performance standards for computer processing.
- D. Run-to-run control totals for major applications.

**[288] Gleim #: 5.5.46 -- Source: CIA 597 I-39**

If an engagement client's operating standards are vague and thus subject to interpretation, the internal auditor should

- A. Seek agreement with the engagement client as to the criteria to be used to measure operating performance.
- B. Determine best practices in this area and use them as the standard.
- C. Interpret the standards in their strictest sense because standards are otherwise only minimum measures of acceptance.
- D. Omit any comments on standards and the engagement client's performance in relationship to those standards because such an analysis would be meaningless.

**[289] Gleim #: 5.5.47 -- Source: Publisher**

During a formal consulting engagement, the internal auditor should always bring substantial risk exposures or material control weaknesses to the attention of

- A. Executive management.
- B. Management.
- C. Audit committee.
- D. Board of directors.

**[290] Gleim #: 5.5.48 -- Source: CIA 1190 II-49**

An internal auditor should exercise due professional care in performing engagements. Due professional care includes

- A. Establishing direct communication between the chief audit executive and the board of directors.
- B. Evaluating established operating standards and determining whether those standards are acceptable and are being met.
- C. Accumulating sufficient information so that the internal auditor can give absolute assurance that irregularities do not exist.
- D. Establishing suitable criteria of education and experience for filling internal auditing positions.

**[291] Gleim #: 5.5.49 -- Source: CIA 590 I-1**

An internal auditor's role with respect to operating objectives and goals includes

- A. Approving the operating objectives or goals to be met.
- B. Seeking authoritative interpretations when management's targets and criteria are vague.
- C. Developing and implementing control procedures.
- D. Accomplishing desired operating program results.



**[292] Gleim #: 5.5.50 -- Source: Publisher**

Internal auditors need to ascertain the extent to which management has established adequate criteria to determine whether goals and objectives have been accomplished. Which of the following actions may be appropriate?

- I. Determining whether operating and program goals and objectives conform with those of the organization.
  - II. Reviewing operations to ascertain the extent to which results are consistent with established goals and objectives.
  - III. Working with management to develop appropriate control evaluation criteria.
- A. I only.
  - B. I and II only.
  - C. I, II, and III.
  - D. II only.

**[293] Gleim #: 5.5.51 -- Source: CIA 1188 II-3**

In evaluating the effectiveness and efficiency with which resources are employed, an internal auditor is responsible for

- A. Determining the extent to which adequate operating criteria have been established.
- B. Verifying the existence of assets.
- C. Reviewing the reliability of operating information.
- D. Verifying the accuracy of asset valuation.

**[Fact Pattern #7]**

The chief audit executive (CAE) of a mid-sized internal audit activity (IAA) was concerned that management might outsource the internal auditing function. Thus, the CAE adopted a very aggressive program to promote the IAA within the organization. The CAE planned to present the results to senior management and the board and recommend modification of the IAA's charter after using the new program. The following lists six actions the CAE took to promote a positive image within the organization:

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5. To save time, the CAE no longer required that a standard internal control questionnaire be completed for each engagement.
6. When the internal auditors found that the engagement client had not developed specific criteria or data to evaluate operations, the internal auditors were instructed to perform research, develop specific criteria, review the criteria with the engagement client, and if acceptable, use them to evaluate the engagement client's operations. If the engagement client disagreed with the criteria, a negotiation took place until acceptable criteria could be agreed upon. The engagement communication commented on the engagement client's operations in conjunction with the agreed-upon criteria.

**[294] Gleim #: 5.5.52 -- Source: CIA 595 I-39**

(Refers to Fact Pattern #7)

Regarding Action 6, which of the following elements of the action would have rendered it inappropriate if omitted?

- A. Not requiring the internal auditors to seek agreement about the criteria.
- B. Developing a set of criteria to present to the engagement client as a basis for evaluating the engagement client's operations.
- C. Commenting on the agreed-upon criteria.
- D. All of the answers are correct.

**[295] Gleim #: 5.5.53 -- Source: CIA 596 I-63**

Developing engagement observations, conclusions, and recommendations involves comparing the condition with the relevant standard or criterion. Which of the following choices best represents an appropriate standard or criterion to support engagement observations, conclusions, and recommendations?

- A. A quality standard operating procedure (number and date) for the department.
- B. An internal accounting control principle, cited and copied from a public accounting reference.
- C. A sound industry practice, based on the internal auditor's knowledge and experience obtained during many engagement assignments within the organization.
- D. All of the answers represent an appropriate standard or criterion to support engagement observations, conclusions, and recommendations.

**[296] Gleim #: 5.5.54 -- Source: CIA 592 I-48**

Management asserted that the performance standards the internal auditors used to evaluate operating performance were inappropriate. Written performance standards established by management were vague and had to be interpreted by the internal auditors. In such cases, internal auditors should

- A. Assure themselves that their interpretations are reasonable.
- B. Assure themselves that their interpretations are consistent with industry practices.
- C. Establish agreement with engagement clients as to the standards needed to measure performance.
- D. Incorporate management's objections in the final engagement communication.

**[297] Gleim #: 5.5.55 -- Source: CIA 04 Model Exam I-47**

Which statement most accurately describes how criteria are established for use by internal auditors in determining whether goals and objectives have been accomplished?

- A. Management is responsible for establishing the criteria.
- B. Internal auditors should use professional standards or government regulations to establish the criteria.
- C. The industry in which a company operates establishes criteria for each member company through benchmarks and best practices for that industry.
- D. Appropriate accounting or auditing standards, including international standards, should be used as the criteria.

**[298] Gleim #: 6.1.1 -- Source: Publisher**

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

- A. Preventive maintenance.
- B. Inspection of completed goods.
- C. Close supervision of production-line workers.
- D. Measuring performance against a standard.

**[299] Gleim #: 6.1.2 -- Source: CIA 1195 III-17**

An organization's policies and procedures are part of its overall system of internal controls. The control function performed by policies and procedures is

- A. Feedforward control.
- B. Implementation control.
- C. Feedback control.
- D. Application control.

**[300] Gleim #: 6.1.3 -- Source: CIA 1193 I-8**

Specific airline ticket information, including fare, class, purchase date, and lowest available fare options, as prescribed in the organization's travel policy, is obtained and reported to department management when employees purchase airline tickets from the organization's authorized travel agency. Such a report provides information for

- A. Quality of performance in relation to the organization's travel policy.
- B. Identifying costs necessary to process employee business expense report data.
- C. Departmental budget-to-actual comparisons.
- D. Supporting employer's business expense deductions.

**[301] Gleim #: 6.1.4 -- Source: Publisher**

Control devices may be

	<u>Quantitative</u>	<u>Qualitative</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

**[302] Gleim #: 6.1.5 -- Source: Publisher**

The steps in a typical control process include

1. Selecting strategic control points at which to gather information about activities being performed
2. Accumulating, classifying, and recording data samples
3. Observing the work or collecting samples of data
4. Determining whether performance is satisfactory
5. Reviewing and revising standards
6. Reporting significant deviations to managers concerned

What is the proper order of these steps?

- A. 1, 3, 2, 4, 6, 5
- B. 1, 2, 3, 4, 5, 6
- C. 1, 3, 4, 2, 6, 5
- D. 1, 3, 4, 2, 5, 6

**[303] Gleim #: 6.1.6 -- Source: Publisher**

Which of the following statements regarding effective control systems is false?

- A. Excessive controls are costly in time and money.
- B. Outdated information is inappropriate.
- C. Controls should measure the performance of all areas.
- D. Controls should be simple.

**[304] Gleim #: 6.1.7 -- Source: Publisher**

Standards must

- A. Fail to assist in implementing plans.
- B. Not be applied at those points that significantly influence subsequent progress.
- C. Be accepted by those who carry them out if they are to have maximum effectiveness.
- D. Not be reviewed periodically for adjustment or elimination because of changed circumstances.

**[Fact Pattern #8]**

The marketing department for a major retailer assigns separate product managers for each product line. Product managers are responsible for ordering products and determining retail pricing. Each product manager's purchasing budget is set by the marketing manager. Products are delivered to a central distribution center where goods are segregated for distribution to the company's 52 department stores. Because receipts are recorded at the distribution center, the company does not maintain a receiving function at each store. Product managers are evaluated on a combination of sales and gross profit generated from their product lines. Many products are seasonal and individual store managers can require that seasonal products be removed to make space for the next season's products.

**[305] Gleim #: 6.1.8 -- Source: CIA 04 Model Exam I-61**

(Refers to Fact Pattern #8)

Which of the following is a control deficiency in this situation?

- A. The store manager can require items to be removed, thus affecting the potential performance evaluation of individual product managers.
- B. The product manager negotiates the purchase price and sets the selling price.
- C. Evaluating product managers by total gross profit generated by product line will lead to dysfunctional behavior.
- D. There is no receiving function located at individual stores.

**[306] Gleim #: 6.1.9 -- Source: CIA 04 Model Exam I-62**

(Refers to Fact Pattern #8)

Requests for purchases beyond those initially budgeted must be approved by the marketing manager. This procedure:

- I. Should provide for the most efficient allocation of scarce organizational resources.
- II. Is a detective control procedure.
- III. Is unnecessary because each product manager is evaluated on profit generated.

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

**[307] Gleim #: 6.1.10 -- Source: CIA 04 Model Exam I-75**

Which of the following would minimize defects in finished goods caused by poor quality raw materials?

- A. Documented procedures for the proper handling of work-in-process inventory.
- B. Required material specifications for all purchases.
- C. Timely follow-up on all unfavorable usage variances.
- D. Determination of the amount of spoilage at the end of the manufacturing process.

**[308] Gleim #: 6.1.11 -- Source: CIA 04 Model Exam I-76**

The requirement that purchases be made from suppliers on an approved vendor list is an example of a:

- A. Preventive control.
- B. Detective control.
- C. Corrective control.
- D. Monitoring control.

**[309] Gleim #: 6.1.12 -- Source: CIA 1187 II-14**

Which of the following is an operating control relating to management's directing function?

- A. Informing purchasing personnel of the future need for long-lead-time products in ample time.
- B. Supplying buyers with timely, accurate, and useful reports on products received, accepted, or rejected.
- C. Prescribing formal procedures for selecting potential suppliers.
- D. Establishing measurable goals for the department.

**[310] Gleim #: 6.1.13 -- Source: CIA 1195 I-68**

Internal auditors are operating in organizations in which management is in the process of "reengineering" operations with strong emphasis on total quality management techniques. In management's quest to gain efficiency in processing, many of the traditional control procedures are being deleted from the organization's control system. As part of this change, management is

- A. Placing more emphasis on monitoring control activities.
- B. Making different assumptions about human performance and the nature of human motivation than was done under traditional control techniques.
- C. Placing more emphasis on self-correcting control activities and process automation.
- D. All of the answers are correct.

**[311] Gleim #: 6.1.14 -- Source: CIA 591 III-16**

Managerial control can be divided into feedforward and feedback controls. Which of the following is an example of a feedback control?

- A. Quality control training.
- B. Budgeting.
- C. Forecasting inventory needs.
- D. Variance analysis.

**[312] Gleim #: 6.1.15 -- Source: CIA 1191 III-11**

The operations manager of a company notified the treasurer of that organization 60 days in advance that a new, expensive piece of machinery was going to be purchased. This notification allowed the treasurer to make an orderly liquidation of some of the company's investment portfolio on favorable terms. What type of control was involved?

- A. Feedback.
- B. Strategic.
- C. Concurrent.
- D. Feedforward.

**[313] Gleim #: 6.1.16 -- Source: CIA 592 III-17**

As part of a total quality control program, a firm not only inspects finished goods but also monitors product returns and customer complaints. Which type of control best describes these efforts?

- A. Feedback control.
- B. Feedforward control.
- C. Production control.
- D. Inventory control.

**[314] Gleim #: 6.1.17 -- Source: CIA 585 III-28**

Which of the following is not implied by the definition of control?

- A. Measurement of progress toward goals.
- B. Uncovering of deviations from plans.
- C. Assignment of responsibility for deviations.
- D. Indication of the need for corrective action.

**[315] Gleim #: 6.1.18 -- Source: CIA 1185 III-10**

The use of financial statement analysis, quality control procedures, and employee performance evaluations are all examples of

- A. Preliminary controls.
- B. Concurrent controls.
- C. Feedback controls.
- D. Feedforward controls.

**[316] Gleim #: 6.1.19 -- Source: CIA 1186 III-13**

Of the following, the controls that are often difficult for internal auditors to evaluate because of the lack of criteria or standards are

- A. Preventive controls.
- B. Financial controls.
- C. Corrective controls.
- D. Operating controls.

**[317] Gleim #: 6.1.20 -- Source: CIA 595 III-15**

The internal audit activity of an organization is an integral part of the organization's risk management, control, and governance processes because it evaluates and contributes to the improvement of those processes. Select the type of control provided when the IAA conducts a systems development analysis.

- A. Feedback control.
- B. Strategic plans.
- C. Policies and procedures.
- D. Feedforward control.

**[318] Gleim #: 6.1.21 -- Source: CIA 1189 II-11**

An internal auditor is examining inventory control in a merchandising division with annual sales of \$3,000,000 and a 40% gross profit rate. Tests show that 2% of the monetary amount of purchases do not reach inventory because of breakage and employee theft. Adding certain controls costing \$35,000 annually could reduce these losses to .5% of purchases. Should the controls be recommended?

- A. Yes, because the projected saving exceeds the cost of the added controls.
- B. No, because the cost of the added controls exceeds the projected savings.
- C. Yes, because the ideal system of internal control is the most extensive one.
- D. Yes, regardless of cost-benefit considerations, because the situation involves employee theft.

**[319] Gleim #: 6.1.22 -- Source: CIA 587 II-25**

Which of the following is an operating control for a research and development department?

- A. Research and development personnel are hired by the payroll department.
- B. Research and development expenditures are reviewed by an independent person.
- C. All research and development costs are charged to expense in accordance with the applicable accounting principles.
- D. The research and development budget is properly allocated between new products, product maintenance, and cost reduction programs.

**[320] Gleim #: 6.1.23 -- Source: CIA 1193 II-7**

An internal auditor notes year-to-year increases for small tool expense at a manufacturing facility that has produced the same amount of identical product for the last 3 years. Production inventory is kept in a controlled staging area adjacent to the receiving dock, but the supply of small tools is kept in an unsupervised area near the exit to the plant employees' parking lot. After determining that all of the following alternatives are equal in cost and are also feasible for local management, the internal auditor would best address the security issue by recommending that plant management

- A. Move the small tools inventory to the custody of the production inventory staging superintendent and implement the use of a special requisition to issue small tools.
- B. Initiate a full physical inventory of small tools on a monthly basis.
- C. Place supply of small tools in a secured area, install a key-access card system for all employees, and record each key-access transaction on a report for the production superintendent.
- D. Close the exit to the employee parking lot and require all plant employees to use a doorway by the receiving dock that also provides access to the plant employees' parking area.

**[321] Gleim #: 6.1.24 -- Source: CIA 587 I-24**

Which of the following control procedures does an internal auditor expect to find during an engagement to evaluate risk management and insurance?

- A. Periodic internal review of the "in force" list to evaluate the adequacy of insurance coverage.
- B. Required approval of all new insurance policies by the organization's CEO.
- C. Policy of repetitive "standard journal entries" to record insurance expense.
- D. Cutoff procedures with regard to insurance expense reporting.

**[322] Gleim #: 6.1.25 -- Source: CIA 1188 II-16**

Controls provide assurance to management that desired actions will be accomplished when objectives are established in writing and

- A. Standards are adopted, results are compared with the standards, and corrective actions are undertaken.
- B. Are communicated to employees in writing and are updated by operating personnel as conditions change.
- C. Policies and procedures for activities are set out in manuals for use by properly trained personnel.
- D. Internal reviews as to the propriety and effectiveness of the objectives are undertaken on a periodic basis by the internal audit activity.

**[323] Gleim #: 6.1.26 -- Source: CIA 1191 III-10**

To be successful, large companies must develop means to keep the organization focused in the proper direction. Organizational control systems help keep companies focused. These control systems consist of which three basic components?

- A. Budgeting, financial ratio analysis, and cash management.
- B. Objectives, standards, and an evaluation-reward system.
- C. Role analysis, team building, and survey feedback.
- D. Setting goals, empowering employees, and job enrichment.

**[324] Gleim #: 6.1.27 -- Source: CIA 1184 III-11**

Which of the following statements best describes the relationship between planning and controlling?

- A. Planning looks to the future; controlling is concerned with the past.
- B. Planning and controlling are completely independent of each other.
- C. Planning prevent problems; controlling is initiated by problems which have occurred.
- D. Controlling cannot operate effectively without the tools provided by planning.

**[325] Gleim #: 6.2.28 -- Source: Publisher**

Which of the following are elements included in the control environment?

- A. Organizational structure, management philosophy, and planning.
- B. Integrity and ethical values, assignment of authority, and human resource policies.
- C. Competence of personnel, backup facilities, laws, and regulations.
- D. Risk assessment, assignment of responsibility, and human resource practices.

**[326] Gleim #: 6.2.29 -- Source: Publisher**

Internal control can provide only reasonable assurance that the organization's objectives and goals will be met efficiently and effectively. One factor limiting the likelihood of achieving those objectives is that

- A. The internal auditor's primary responsibility is the detection of fraud.
- B. The audit committee is active and independent.
- C. The cost of internal control should not exceed its benefits.
- D. Management monitors performance.

**[327] Gleim #: 6.2.30 -- Source: CIA, adapted**

An adequate system of internal controls is most likely to detect a fraud perpetrated by a

- A. Group of employees in collusion.
- B. Single employee.
- C. Group of managers in collusion.
- D. Single manager.

**[328] Gleim #: 6.2.31 -- Source: CIA 1196 I-15**

Two organizations have recently merged. The audit committee has asked the internal auditors from both organizations to assess risks that should be addressed after the merger. One manager has suggested that the engagement teams jointly examine the organizational culture and the “tone at the top” to identify control risks associated with the proposed merger. Which of the following statements is true?

- A. The organizational culture is not a part of the control environment and therefore should not be considered for a proposed engagement.
- B. Although the organizational culture could be considered part of the control environment, the assessment of such an environment would be highly subjective and therefore not useful.
- C. Differences in the organizational culture should be systematically identified because the differences may present major risks to the success of the merger. However, identifying differences is not an appropriate activity because it is political and subjective.
- D. None of the answers are correct.

**[329] Gleim #: 6.2.32 -- Source: Publisher**

COSO treats internal control as a process designed to provide reasonable assurance regarding the achievement of objectives related to

- A. Reliability of financial reporting.
- B. Effectiveness and efficiency of operations.
- C. Compliance with applicable laws and regulations.
- D. All of the answers are correct.

**[330] Gleim #: 6.2.33 -- Source: Publisher**

Which of the following are elements of the control environment?

- A. Integrity and ethical value.
- B. Organizational structure.
- C. Assignment of authority and responsibility.
- D. All of the answers are correct.

**[331] Gleim #: 6.2.34 -- Source: CIA 592 II-22**

Management has a role in the maintenance of control. In fact, management sometimes is a control. Which of the following involves managerial functions as a control?

- A. Monitoring performance.
- B. Use of an organizational policies manual.
- C. Maintenance of a quality assurance program.
- D. Establishment of an internal audit activity.

**[332] Gleim #: 6.2.35 -- Source: Publisher**

Which of the following is a factor affecting risk?



- A. New personnel.
- B. New or revamped information systems.
- C. Rapid growth.
- D. All of the answers are correct.

**[333] Gleim #: 6.2.36 -- Source: Publisher**

The policies and procedures helping to ensure that management directives are executed and actions are taken to address risks to achievement of objectives describes

- A. Risk assessments.
- B. Control environments.
- C. Control activities.
- D. Monitoring.

**[334] Gleim #: 6.2.37 -- Source: Publisher**

Which of the following is not a component of the CoCo model?

- A. Commitment.
- B. Capability.
- C. Control environment.
- D. Monitoring and learning.

**[335] Gleim #: 6.2.38 -- Source: Publisher**

In regard to The IIA's own Systems Auditability and Control study, what elements are encompassed by the control framework?

- A. Segregation of incompatible duties.
- B. Appropriate levels of authority and responsibility.
- C. Supervision of staff and review of work.
- D. All of the answers are correct.

**[336] Gleim #: 6.2.39 -- Source: Publisher**

Enterprise Risk Management (ERM) helps management achieve all of the following except

- A. Reaching objectives.
- B. Reporting on a timely basis.
- C. Preventing loss of reputation and resources.
- D. Complying with laws and regulations.

**[337] Gleim #: 6.2.40 -- Source: Publisher**

Management considers risk appetite for all of the following reasons except

- A. Evaluating strategic options.
- B. Setting objectives.
- C. Developing risk management techniques.
- D. Increasing the net present value of investments.

**[338] Gleim #: 6.2.41 -- Source: Publisher**

ERM allows management greater capabilities. Which of the following is not a capability of ERM?

- A. Reduced operational surprises and losses.
- B. Better deployment of capital.
- C. Increased productivity.
- D. Improved risk response decisions.

**[339] Gleim #: 6.2.42 -- Source: Publisher**

Which of the following is a category of objectives of ERM?

- A. Compliance.
- B. Control expenses.
- C. Planning.
- D. Information and communication.

**[340] Gleim #: 6.2.43 -- Source: Publisher**

ERM is **not** expected to provide reasonable assurance of achieving which objectives?

- A. Strategic and reporting.
- B. Operations and reporting.
- C. Strategic and operations.
- D. Compliance.

**[341] Gleim #: 6.2.44 -- Source: Publisher**

Components of ERM are integrated with the management process. Which of the following correctly states four components of ERM?

- A. Event identification, risk assessment, control activities, and objective setting.
- B. Internal environment, objective setting, monitoring, and risk minimization.
- C. External environment, risk assessment, monitoring, and event identification.
- D. Objective setting, external environment, risk assessment, and control activities.

**[342] Gleim #: 6.2.45 -- Source: Publisher**

Which of the following control models is fully incorporated into the broader integrated framework of ERM?

- A. CoCo.
- B. COSO.
- C. Systems Assurance and Control.
- D. COBIT.

**[343] Gleim #: 6.2.46 -- Source: Publisher**

The components of ERM should be present and functioning effectively. What does "present and functioning effectively" mean?

- I. No material weaknesses exist.
  - II. Risk is within the risk appetite.
- 
- A. I only.
  - B. II only.
  - C. Both I and II.
  - D. Neither I nor II.

**[344] Gleim #: 6.2.47 -- Source: Publisher**

Limitations of ERM may arise from

- A. Faulty human judgment.
- B. Cost-benefit considerations.
- C. Collusion.
- D. All of the answers are correct.

**[345] Gleim #: 6.2.48 -- Source: CIA 04 Model Exam I-54**

The function of the chief risk officer (CRO) is most effective when the CRO:

- A. Manages risk as a member of senior management.
- B. Shares the management of risk with line management.
- C. Shares the management of risk with the chief audit executive.
- D. Monitors risk as part of the enterprise risk management team.

**[346] Gleim #: 6.2.49 -- Source: CIA 04 Model Exam I-56**

Which of the following statements is correct regarding corporate compensation systems and related bonuses?

- I. A bonus system should be considered part of the control environment of an organization and should be considered in formulating a report on internal control.
  - II. Compensation systems are not part of an organization's control system and should not be reported as such.
  - III. An audit of an organization's compensation system should be performed independently of an audit of the control system over other functions that impact corporate bonuses.
- 
- A. I only.
  - B. II only.
  - C. III only.
  - D. II and III only.

**[347] Gleim #: 6.2.50 -- Source: CIA 1190 I-7**

An organization's directors, management, external auditors, and internal auditors all play important roles in creating a proper control environment. Senior management is primarily responsible for

- A. Establishing a proper organizational culture and specifying a system of internal control.
- B. Designing and operating a control system that provides reasonable assurance that established objectives and goals will be achieved.
- C. Ensuring that external and internal auditors adequately monitor the control environment.
- D. Implementing and monitoring controls designed by the board of directors.

**[348] Gleim #: 6.2.51 -- Source: CIA 04 Model Exam I-59**

Enterprise risk management:

- A. Guarantees achievement of organizational objectives.
- B. Requires establishment of risk and control activities by internal auditors.
- C. Involves the identification of events with negative impacts on organizational objectives.
- D. Includes selection of the best risk response for the organization.

**[349] Gleim #: 6.2.52 -- Source: Publisher**

Which term best reflects the attitude and actions of the board and management regarding the significance of control within the organization?

- A. Risk assessment.
- B. Control activities.
- C. Control environment.
- D. Monitoring.

**[350] Gleim #: 6.2.53 -- Source: Publisher**

Which of the following statements is not accurate with regard to soft controls?

- A. The COSO and CoCo models emphasize soft controls.
- B. The communication of ethical values and the fostering of mutual trust are soft controls in the CoCo model.
- C. Soft controls have become more necessary as technology advances have empowered employees.
- D. Control self-assessment is not an approach to audit soft controls.

**[351] Gleim #: 6.2.54 -- Source: Publisher**

Key concepts in The IIA's Systems Auditability and Control study include all of the following except

- A. Reasonable assurance.
- B. Objectives as desired accomplishments of the organization.
- C. Goals as specific targets.
- D. Segregation of duties.

**[352] Gleim #: 6.2.55 -- Source: CIA 1186 I-7**

An internal auditor noted that the accounts receivable department is separate from other accounting activities. Credit is approved by a separate credit department. Control accounts and subsidiary ledgers are balanced monthly. Similarly, accounts are aged monthly. The accounts receivable manager writes off delinquent accounts after 1 year, or sooner if a bankruptcy or other unusual circumstances are involved. Credit memoranda are prenumbered and must correlate with receiving reports. Which of the following areas could be viewed as an internal control weakness of the above organization?

- A. Write-offs of delinquent accounts.
- B. Credit approvals.
- C. Monthly aging of receivables.
- D. Handling of credit memos.

**[353] Gleim #: 6.2.56 -- Source: CIA 587 I-21**

Checks from customers are received in the organization's mail room each day. What controls should be in place to safeguard them?

- A. Establishing a separate post office box for customer payments.
- B. Forwarding all checks to the cashier upon receipt.
- C. Requiring a specific mail clerk to list and restrictively endorse each check.
- D. Providing bonding protection for mail clerks.

**[354] Gleim #: 6.2.57 -- Source: CIA 587 II-24**

One control objective of the financing/treasury cycle is the proper authorization of transactions involving debt and equity instruments. Which of the following controls would best meet this objective?

- A. Separation of responsibility for custody of funds from recording of the transaction.
- B. Written policies requiring review of major funding/repayment proposals by the board.
- C. Use of an underwriter in all cases of new issue of debt or equity instruments.
- D. Requiring two signatures on all checks of a material amount.

**[355] Gleim #: 6.2.58 -- Source: CIA 1188 I-20**

Which of the following activities performed by a payroll clerk is a control weakness rather than a control strength?

- A. Has custody of the check signature stamp machine.
- B. Prepares the payroll register.
- C. Forwards the payroll register to the chief accountant for approval.
- D. Draws the paychecks on a separate payroll checking account.

**[356] Gleim #: 6.2.59 -- Source: CIA 1187 I-10**

The internal auditor recognizes that certain limitations are inherent in any system of internal controls. Which one of the following scenarios is the result of an inherent limitation of internal control?

- A. The comptroller both makes and records cash deposits.
- B. A security guard allows one of the warehouse employees to remove assets from the premises without authorization.
- C. The organization sells to customers on account, without credit approval.
- D. An employee, who is unable to read, is assigned custody of the organization's computer tape library and run manuals that are used during the third shift.

**[357] Gleim #: 6.2.60 -- Source: CIA 1188 II-24**

One payroll engagement objective is to determine whether segregation of duties is proper. Which of the following activities is incompatible?

- A. Hiring employees and authorizing changes in pay rates.
- B. Preparing the payroll and filing payroll tax forms.
- C. Signing and distributing payroll checks.
- D. Preparing attendance data and preparing the payroll.

**[358] Gleim #: 6.2.61 -- Source: CIA 589 II-10**

Which of the following observations, made during the preliminary survey of a local department store's disbursement cycle, reflects a control strength?

- A. Individual department managers use prenumbered forms to order merchandise from vendors.
- B. The receiving department is given a copy of the purchase order complete with a description of goods, quantity ordered, and extended price for all merchandise ordered.
- C. The treasurer's office prepares checks for suppliers based on vouchers prepared by the accounts payable department.
- D. Individual department managers are responsible for the movement of merchandise from the receiving dock to storage or sales areas as appropriate.

**[359] Gleim #: 6.2.62 -- Source: CIA 1192 II-18**

Which of the following controls would help prevent overpaying a vendor?

- A. Reviewing and canceling supporting documents when a check is issued.
- B. Requiring the check signer to mail the check directly to the vendor.
- C. Reviewing the accounting distribution for the expenditure.
- D. Approving the purchase before ordering from the vendor.

**[360] Gleim #: 6.2.63 -- Source: CIA 592 I-19**

Which of the following situations will cause an internal auditor to question the adequacy of controls over a purchasing function?

- A. The original and one copy of the purchase order are mailed to the vendor. The copy, on which the vendor acknowledges acceptance, is returned to the purchasing department.
- B. Receiving reports are forwarded to purchasing where they are matched with purchase orders and sent to accounts payable.
- C. The accounts payable section prepares documentation for payments.
- D. Unpaid voucher files and perpetual inventory records are independently maintained.

**[361] Gleim #: 6.2.64 -- Source: CIA 1194 I-29**

A receiving department receives copies of purchase orders for use in identifying and recording inventory receipts. The purchase orders list the name of the vendor and the quantities of the materials ordered. A possible error that this system could allow is

- A. Payment to unauthorized vendors.
- B. Payment for unauthorized purchases.
- C. Overpayment for partial deliveries.
- D. Delay in recording purchases.

**[362] Gleim #: 6.2.65 -- Source: CIA 1194 I-31**

Which of the following assures that all inventory shipments are billed to customers?

- A. Shipping documents are prenumbered and are independently accounted for and matched with sales invoices.
- B. Sales invoices are prenumbered and are independently accounted for and traced to the sales journal.
- C. Duties for recording sales transactions and maintaining customer account balances are separated.
- D. Customer billing complaints are investigated by the controller's office.

**[363] Gleim #: 6.2.66 -- Source: CIA 596 I-13**

Obsolete or scrap materials are charged to a predefined project number. The materials are segregated into specified bin locations and eventually transported to a public auction for sale. To reduce the risks associated with this process, an organization should employ which of the following procedures?

- I. Require managerial approval for materials to be declared scrap or obsolete.
- II. Permit employees to purchase obsolete or scrap materials prior to auction.
- III. Limit obsolete or scrap materials sales to a pre-approved buyer.
- IV. Specify that a fixed fee, rather than a commission, be paid to the auction firm.

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

**[Fact Pattern #9]**

While performing analytical procedures related to an engagement involving a social services agency of a government entity, the internal auditor noted an unusually large increase in payments to individual recipients who are under the direction of a particular social worker in the agency.

**[364] Gleim #: 6.2.67 -- Source: CIA 595 I-66**

(Refers to Fact Pattern #9)

The internal auditor is considering making a recommendation about appropriate controls to address a potential problem of fictitious recipients. The internal auditor has identified the following control procedures as potential items to include in the recommendation.

- I. Require that all additions to the recipient file be independently investigated and approved by a supervisor of the social workers.
- II. Require the use of self-checking digits on the account numbers of all recipients so that any duplicates will be immediately noted by the system.
- III. Incorporate a code into the computer program to search for duplicate names and addresses. Develop an exception report that will go to the section supervisor whenever duplicates are noted.
- IV. Require that social workers be rotated among recipients.

Which of the following control combinations would effectively address the internal auditor's concerns and improve control over valid recipients?

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

**[Fact Pattern #10]**

An organization has grown rapidly and has just automated its human resource system. The organization has developed a large database that tracks employees, employee benefits, payroll deductions, job classifications, ethnic code, age, insurance, medical protection, and other similar information. Management has asked the internal audit activity to review the new system.

**[365] Gleim #: 6.2.68 -- Source: CIA 1196 I-36**

(Refers to Fact Pattern #10)

The automated system contains a table of pay rates matched with the employee job classifications. The best control to ensure that the table is updated correctly for only valid pay changes is to

- A. Limit access to the data table to management and line supervisors who have the authority to determine pay rates.
- B. Require a supervisor in the department, who does not have the ability to change the table of pay rates, to compare the changes with a signed management authorization.
- C. Ensure that adequate edit and reasonableness checks are built into the automated system.
- D. Require that all pay changes be signed by the employee to verify that the change goes to a bona fide employee.

**[366] Gleim #: 6.2.69 -- Source: CIA 1196 I-38**

(Refers to Fact Pattern #10)

Human resources and payroll are separate departments. Which of the following combinations provides the best segregation of duties?

- A. Human resources adds employees, payroll processes hours, and human resources delivers the paychecks to employees.
- B. Human resources adds employees, reviews and submits payroll hours to payroll for processing, and delivers paychecks to employees.
- C. Human resources adds employees, and payroll processes hours and enters employee bank account numbers. Paychecks are automatically deposited in the employee's bank account.
- D. Payroll adds employees and enters employees' bank account numbers but processes hours only as approved by human resources. Paychecks are automatically deposited in the employee's bank account.

**[367] Gleim #: 6.3.70 -- Source: CIA 1188 IV-51**

Budgets are a necessary component of financial decision making because they help provide a(n)

- A. Efficient allocation of resources.
- B. Means to use all the firm's resources.
- C. Automatic corrective mechanism for errors.
- D. Means to check managerial discretion.

**[368] Gleim #: 6.3.71 -- Source: CIA 589 IV-13**

Which of the following is the principal advantage of budgeting?

- A. Employee motivation.
- B. Performance evaluation.
- C. Forced planning.
- D. Communication.

**[369] Gleim #: 6.3.72 -- Source: CMA 1288 3-22**

Internal control should follow certain basic principles to achieve its objectives. One of these principles is the segregation of functions. Which one of the following examples does not violate the principle of segregation of functions?

- A. The treasurer has the authority to sign checks but gives the signature block to the assistant treasurer to run the check-signing machine.
- B. The warehouse clerk, who has the custodial responsibility over inventory in the warehouse, may authorize disposal of damaged goods.
- C. The sales manager has the responsibility to approve credit and the authority to write off accounts.
- D. The department time clerk is given the undistributed payroll checks to mail to absent employees.

**[370] Gleim #: 6.3.73 -- Source: CMA 1288 3-23**

If internal control is well designed, two tasks that should be performed by different persons are

- A. Approval of bad debt write-offs, and reconciliation of the accounts payable subsidiary ledger and controlling account.
- B. Distribution of payroll checks and approval of sales returns for credit.
- C. Posting of amounts from both the cash receipts journal and cash payments journal to the general ledger.
- D. Recording of cash receipts and preparation of bank reconciliations.

**[371] Gleim #: 6.3.74 -- Source: CMA 689 3-16**

Which one of the following situations represents an internal control weakness in the payroll department?

- A. Payroll department personnel are rotated in their duties.
- B. Paychecks are distributed by the employees' immediate supervisor.
- C. Payroll records are reconciled with quarterly tax reports.
- D. The timekeeping function is independent of the payroll department.

**[372] Gleim #: 6.3.75 -- Source: CIA 590 I-9**

Which of the following activities represents both an appropriate personnel department function and a deterrent to payroll fraud?

- A. Distribution of paychecks.
- B. Authorization of overtime.
- C. Authorization of additions and deletions from the payroll.
- D. Collection and retention of unclaimed paychecks.

**[373] Gleim #: 6.3.76 -- Source: CIA 1196 I-34**

Which of the following describes a control weakness?

- A. Purchasing procedures are well designed and are followed unless otherwise directed by the purchasing supervisor.
- B. Prenumbered blank purchase orders are secured within the purchasing department.
- C. Normal operational purchases fall in the range from \$500 to \$1,000 with two signatures required for purchases over \$1,000.
- D. The purchasing agent invests in a publicly traded mutual fund that lists the stock of one of the organization's suppliers in its portfolio.

**[374] Gleim #: 6.3.77 -- Source: CIA 591 I-25**

The most appropriate method to prevent fraud or theft during the frequent movement of trailers loaded with valuable metal scrap from the manufacturing plant to the organization's scrap yard about 10 miles away would be to

- A. Perform complete physical inventory of the scrap trailers before leaving the plant and upon arrival at the scrap yard.
- B. Require existing security guards to log the time of plant departure and scrap yard arrival. The elapsed time should be reviewed by a supervisor for fraud.
- C. Use armed guards to escort the movement of the trailers from the plant to the scrap yard.
- D. Contract with an independent hauler for the removal of scrap.

**[375] Gleim #: 6.3.78 -- Source: CIA 592 II-15**

A utility with a large investment in repair vehicles would most likely implement which internal control to reduce the risk of vehicle theft or loss?

- A. Review insurance coverage for adequacy.
- B. Systematically account for all repair work orders.
- C. Physically inventory vehicles and reconcile the results with the accounting records.
- D. Maintain vehicles in a secured location with release and return subject to approval by a custodian.



**[376] Gleim #: 6.3.79 -- Source: CIA 1192 II-16**

To minimize the risk that agents in the purchasing department will use their positions for personal gain, the organization should

- A. Rotate purchasing agent assignments periodically.
- B. Request internal auditors to confirm selected purchases and accounts payable.
- C. Specify that all items purchased must pass value-per-unit-of-cost reviews.
- D. Direct the purchasing department to maintain records on purchase prices paid, with review of such being required each 6 months.

**[377] Gleim #: 6.3.80 -- Source: Publisher**

A system of internal control includes physical controls over access to and use of assets and records. A departure from the purpose of such procedures is that

- A. Access to the safe-deposit box requires two officers.
- B. Only storeroom personnel and line supervisors have access to the raw materials storeroom.
- C. The mailroom compiles a list of the checks received in the incoming mail.
- D. Only salespersons and sales supervisors use sales department vehicles.

**[378] Gleim #: 6.3.81 -- Source: CIA 589 II-7**

Which of the following controls could be used to detect bank deposits that are recorded but never made?

- A. Establishing accountability for receipts at the earliest possible time.
- B. Linking receipts to other internal accountabilities, for example, collections to either accounts receivable or sales.
- C. Consolidating cash receiving points.
- D. Having bank reconciliations performed by a third party.

**[379] Gleim #: 6.3.82 -- Source: CIA 1194 I-26**

Management can best strengthen internal control over the custody of inventory stored in an off-site warehouse by implementing

- A. Reconciliations of transfer slips to/from the warehouse with inventory records.
- B. Increases in insurance coverage.
- C. Regular reconciliation of physical inventories to accounting records.
- D. Regular confirmation of the amount on hand with the custodian of the warehouse.

**[380] Gleim #: 6.3.83 -- Source: CIA 593 II-11**

Upon receipt of purchased goods, receiving department personnel match the quantity received with the packing slip quantity and mark the retail price on the goods based on a master price list. The annotated packing slip is then forwarded to inventory control and goods are automatically moved to the retail sales area. The most significant control strength of this activity is

- A. Immediately pricing goods for retail sale.
- B. Matching quantity received with the packing slip.
- C. Using a master price list for marking the sale price.
- D. Automatically moving goods to the retail sales area.

**[381] Gleim #: 6.3.84 -- Source: CIA 597 I-13**

A manufacturer uses large quantities of small, inexpensive items, such as nuts, bolts, washers, and gloves, in the production process. As these goods are purchased, they are recorded in inventory in bulk amounts. Bins are located on the shop floor to provide timely access to these items. When necessary, the bins are refilled from inventory, and the cost of the items is charged to a consumable supplies account, which is part of shop overhead. Which of the following would be an appropriate improvement of controls in this environment?

- A. Relocate bins to the inventory warehouse.
- B. Require management review of reports on the cost of consumable items used in relation to budget.
- C. Lock the bins during normal working hours.
- D. None of the above controls are needed for items of minor cost and size.

**[382] Gleim #: 6.3.85 -- Source: CIA 597 1-54**

When a supplier of office products is unable to fill an order completely, it marks the out-of-stock items as back ordered on the customer's order and enters these items in a back order file that management can view or print. Customers are becoming disgruntled with the supplier because it seems unable to keep track of and ship out-of-stock items as soon as they are available. The best approach for ensuring prompt delivery of out-of-stock items is to

- A. Match the back order file to goods received daily.
- B. Increase inventory levels to minimize the number of times that out-of-stock conditions occur.
- C. Implement electronic data interchange with supply vendors to decrease the time to replenish inventory.
- D. Reconcile the sum of filled and back orders with the total of all orders placed daily.

**[383] Gleim #: 6.3.86 -- Source: CIA 1195 I-16**

A restaurant chain has over 680 restaurants. All food orders for each restaurant are required to be entered into an electronic device that records all food orders by food servers and transmits the order to the kitchen for preparation. All food servers are responsible for collecting cash for all their orders and must turn in cash at the end of their shift equal to the sales value of food ordered for their I.D. number. The manager then reconciles the cash received for the day with the computerized record of food orders generated. All differences are investigated immediately by the restaurant. Organizational headquarters has established monitoring controls to determine when an individual restaurant might not be recording all its revenue and transmitting the applicable cash to the corporate headquarters. Which one of the following is the best example of a monitoring control?

- A. The restaurant manager reconciles the cash received with the food orders recorded on the computer.
- B. All food orders must be entered on the computer, and segregation of duties is maintained between the food servers and the cooks.
- C. Management prepares a detailed analysis of gross margin per store and investigates any store that shows a significantly lower gross margin.
- D. Cash is transmitted to corporate headquarters on a daily basis.

**[384] Gleim #: 6.3.87 -- Source: CIA 1195 I-64**

Insurers may receive hospitalization claims directly from hospitals by computer media; no paper is transmitted from the hospital to the insurer. Which of the following controls is most effective in detecting fraud in such an environment?

- A. Use integrated test facilities to test the correctness of processing in a manner that is transparent to data processing.
- B. Develop monitoring programs to identify unusual types of claims or an unusual number of claims by demographic classes for investigation by the claims department.
- C. Use generalized audit software to match the claimant identification number with a master list of valid policyholders.
- D. Develop batch controls over all items received from a particular hospital and process those claims in batches.

**[385] Gleim #: 6.3.88 -- Source: CIA 04 Model Exam I-72**

Which of the following controls would prevent the ordering of quantities in excess of an organization's needs?

- A. Review of all purchase requisitions by a supervisor in the user department prior to submitting them to the purchasing department.
- B. Automatic reorder by the purchasing department when low inventory level is indicated by the system.
- C. A policy requiring review of the purchase order before receiving a new shipment.
- D. A policy requiring agreement of the receiving report and packing slip before storage of new receipts.

**[386] Gleim #: 6.3.89 -- Source: CIA 04 Model Exam I-73**

Which of the following observations by an auditor is most likely to indicate the existence of control weaknesses over safeguarding of assets?

- I. A service department's location is not well suited to allow adequate service to other units.
  - II. Employees hired for sensitive positions are not subjected to background checks.
  - III. Managers do not have access to reports that profile overall performance in relation to other benchmarked organizations.
  - IV. Management has not taken corrective action to resolve past engagement observations related to inventory controls.
- 
- A. I and II only.
  - B. I and IV only.
  - C. II and III only.
  - D. II and IV only.

**[387] Gleim #: 6.3.90 -- Source: CIA 04 Model Exam I-74**

A control likely to prevent purchasing agents from favoring specific suppliers is:

- A. Requiring management's review of a monthly report of the totals spent by each buyer.
- B. Requiring buyers to adhere to detailed material specifications.
- C. Rotating buyer assignments periodically.
- D. Monitoring the number of orders placed by each buyer.

**[388] Gleim #: 6.3.91 -- Source: CIA 04 Model Exam I-77**

Appropriate internal control for a multinational corporation's branch office that has a monetary transfer unit requires that:

- A. The individual who initiates wire transfers not reconcile the bank statement.
- B. The branch manager receive all wire transfers.
- C. Foreign currency rates be computed separately by two different employees.
- D. Corporate management approve the hiring of monetary transfer unit employees.

**[389] Gleim #: 6.3.92 -- Source: CIA 1196 I-22**

An internal auditor is reviewing the organization's policy regarding investing in financial derivatives. The internal auditor normally expects to find all of the following in the policy except

- A. A statement indicating whether derivatives are to be used for hedging or speculative purposes.
- B. A specific authorization limit for the amount and types of derivatives that can be used by the organization.
- C. A specific limit on the amount authorized for any single trader.
- D. A statement requiring board review of each transaction because of the risk involved in such transactions.

**[390] Gleim #: 6.3.93 -- Source: CIA 597 1-26**

Which of the following control procedures provides the greatest assurance that all donations to a nonprofit organization are immediately deposited to the organization's account?

- A. Use a lockbox to receive all donations.
- B. Perform periodic reviews of the organization's cash receipts by tracing deposits to the original posting in the cash receipts records.
- C. Require that all donations be made by check.
- D. Require issuance of a confirmation receipt to all donors, with the receipt issued by the person who opens and deposits the cash receipts.

**[391] Gleim #: 6.3.94 -- Source: CIA 1196 I-51**

An internal auditor is assigned to perform an engagement to evaluate the organization's insurance program, including the appropriateness of the approach to minimizing risks. The organization self-insures against large casualty losses and health benefits provided for all its employees. The organization is a large national firm with over 15,000 employees located in various parts of the country. It uses an outside claims processor to administer its health care program. The organization's medical costs have been rising by approximately 8% per year for the past five years, and management is concerned with controlling these costs. The health care processor wishes to implement controls that would help prevent fraud by dentists who are submitting billings for services not provided. Assume further that all the claims are submitted electronically to the health care processor. Which of the following control procedures would be the most effective?

- A. Develop a program that identifies procedures performed on an individual in excess of expectations based on: the age of the employee, whether a similar procedure was performed recently, or the average cost per claim.
- B. Require all submitted claims to be accompanied by a signed statement by the dentist testifying that the claimed procedures were performed.
- C. Send confirmations to the dentists requesting them to confirm the exact nature of the claims submitted to the health care processor.
- D. Develop an integrated test facility and submit false claims to verify that the system is detecting such claims on a consistent basis.

**[392] Gleim #: 6.3.95 -- Source: CIA 596 I-18**

A rental car agency's fleet maintenance division uses a different code for each type of inventory transaction. A daily summary report lists activity by part number and transaction code. The report is reconciled by the parts room supervisor to the day's material request forms and is then forwarded to the fleet manager for approval. The reconciliation of the summary report to the day's material request forms by the parts room supervisor

- A. Verifies that all material request forms were approved.
- B. Provides documentation as to what material was available for a specific transaction.
- C. Confirms that all material request forms are entered for all parts issued.
- D. Ensures the accuracy and completeness of data input.

**[393] Gleim #: 6.3.96 -- Source: CIA 1186 I-6**

An organization has computerized sales and cash receipts journals. The computer programs for these journals have been properly debugged. The internal auditor discovered that the total of the accounts receivable subsidiary accounts differs materially from the accounts receivable control account. This discrepancy could indicate

- A. Credit memoranda being improperly recorded.
- B. Receivables being lapped.
- C. Receivables not being properly aged.
- D. Statements being intercepted prior to mailing.

**[394] Gleim #: 6.3.97 -- Source: CIA 1187 II-13**

Which of the following operating controls relate to the organizing function?

- A. Formal procedures for selecting potential suppliers.
- B. Procedures providing for clear levels of purchase order approvals based on the value of the requisition.
- C. Written objectives and goals for the department.
- D. Timely materials reporting to buyers.

**[395] Gleim #: 6.3.98 -- Source: CIA 1187 II-12**

During an engagement involving a construction contract, the internal auditor discovered that the contractor was being paid for each ton of dirt removed. The contract called for payment based on cubic yards removed. Which internal control might have prevented this error?

- A. Comparison of invoices with purchase orders or contracts.
- B. Comparison of invoices with receiving reports.
- C. Comparison of actual costs with budgeted costs.
- D. Extension checks of invoice amounts.

**[396] Gleim #: 6.3.99 -- Source: CIA 1189 I-9**

An internal auditor noted that several shipments were not billed. To prevent recurrence of such nonbilling, the organization should

- A. Numerically sequence and independently account for all controlling documents (such as packing slips and shipping orders) when sales journal entries are recorded.
- B. Undertake a validity check with customers as to orders placed.
- C. Release product for shipment only on the basis of credit approval by the credit manager or other authorized person.
- D. Undertake periodic tests of gross margin rates by product line and obtain explanations of significant departures from planned rates.

**[397] Gleim #: 6.3.100 -- Source: CIA 1189 I-10**

Which of the following describes the most effective preventive control to ensure proper handling of cash receipt transactions?

- A. Have bank reconciliations prepared by an employee not involved with cash collections and then have them reviewed by a supervisor.
- B. One employee issues a prenumbered receipt for all cash collections; another employee reconciles the daily total of prenumbered receipts to the bank deposits.
- C. Use predetermined totals (hash totals) of cash receipts to control posting routines.
- D. The employee who receives customer mail receipts prepares the daily bank deposit, which is then deposited by another employee.

**[398] Gleim #: 6.3.101 -- Source: CIA 591 II-20**

During an engagement involving a purchasing department, an internal auditor discovered that many purchases were made (at normal prices) from an office supplier whose owner was the brother of the director of purchasing. Controls were in place to restrict such purchases and no fraud appears to have been committed. In this case, the internal auditor should recommend

- A. The development of an approved-vendor file initiated by the buyer and approved by the director of purchasing.
- B. Establishment of a price policy (range) for all goods.
- C. The initiation of a conflict-of-interest policy.
- D. The inspection of all receipts by receiving inspectors.

**[399] Gleim #: 6.3.102 -- Source: CIA 591 II-24**

Which of the following policies and procedures is consistent with effective administration of the insurance function?

- A. Billings for insurance coverage are received and payments disbursed by the insurance manager.
- B. Policy coverages are adjusted each year by applying a price index to previous year coverages.
- C. Final settlements are negotiated after claims are developed and submitted.
- D. Policies are always placed with the carrier that offers the lowest rate for a specified level of coverage.

**[400] Gleim #: 6.3.103 -- Source: CIA 1187 I-12**

An employee should not be able to visit the organization's safety deposit box containing investment securities without being accompanied by another employee. What would be a possible consequence of an employee's being able to visit the safety deposit box unaccompanied?

- A. The employee could pledge organizational investments as security for a short-term personal bank loan.
- B. The employee could steal securities and the theft would never be discovered.
- C. It would be impossible to obtain a fidelity bond on the employee.
- D. There would be no record of when organizational personnel visited the safety deposit box.

**[401] Gleim #: 6.3.104 -- Source: CIA 589 I-12**

A preliminary survey of the purchasing function indicates that

- Department managers initiate purchase requests that must be approved by the plant superintendent,
- Purchase orders are typed by the purchasing department using prenumbered and controlled forms,
- Buyers regularly update the official vendor listing as new sources of supply become known,
- Rush orders can be placed with a vendor by telephone but must be followed by a written purchase order before delivery can be accepted, and
- Vendor invoice payment requests must be accompanied by a purchase order and receiving report.

One possible fault of this system is that

- A. Purchases could be made from a vendor controlled by a buyer at prices higher than normal.
- B. Unnecessary supplies can be purchased by department managers.
- C. Payment can be made for supplies not received.
- D. Payment can be made for supplies received but not ordered by the purchasing department.

**[402] Gleim #: 6.3.105 -- Source: CIA 590 I-12**

One of two office clerks in a small organization prepares a sales invoice; however, the invoice is incorrectly entered by the bookkeeper in the general ledger and the accounts receivable subsidiary ledger for a smaller amount resulting from a transposition of digits. The customer subsequently remits the amount on the monthly statement. Assuming only three employees are in the department, the most effective control to prevent this type of error is

- A. Assigning the second office clerk to make an independent check of prices, discounts, extensions, footings, and invoice serial numbers.
- B. Requiring that monthly statements be prepared by the bookkeeper and verified by one of the other office clerks prior to mailing.
- C. Using predetermined totals to control posting routines.
- D. Requiring the bookkeeper to perform periodic reconciliations of the accounts receivable subsidiary ledger and the general ledger.

**[403] Gleim #: 6.3.106 -- Source: CIA 1192 I-11**

Which of the following aspects of the administration of a compensation program is the most important control in the long run?

- A. An informal wage and salary policy to be competitive with the industry average.
- B. A plan of job classifications based on predefined evaluation criteria.
- C. A wage and salary review plan for individual employee compensation.
- D. A level of general compensation that is reasonably competitive.

**[404] Gleim #: 6.3.107 -- Source: CIA 1196 III-32**

Internal auditors can be considered leading agents for change within an organization. Which of the following is not a good way to promote this concept?

- A. A directive from top management, stating that internal auditors will be used for all process-improvement projects.
- B. A brochure describing what internal auditing can do and the qualifications of the internal auditors.
- C. Postengagement questionnaires to obtain information on how engagement clients perceive the internal audit activity.
- D. Bulletins that highlight widespread or universal applications of engagement observations.

**[405] Gleim #: 6.4.108 -- Source: CIA 597 III-2**

In organizations in which new product groups are often created, a structure that combines functional and product departmentation and creates dual lines of authority would be optimal. The best structure for this organization is

- A. Professional bureaucracy.
- B. Mechanistic.
- C. Matrix.
- D. Machine bureaucracy.

**[406] Gleim #: 6.4.109 -- Source: CIA 1196 III-22**

A new manager of a production department has been asked to assess the effectiveness of that department. The organization needs to satisfy both internal and external constituents and takes a broad approach to effectiveness. To complete the assignment successfully, the manager should

- A. Measure the daily productivity of the department.
- B. Do a survey of employee morale, as it is often a major underlying factor in productivity.
- C. Compare the past year's production against annual goals.
- D. Consider short-, medium-, and long-term effectiveness.

**[407] Gleim #: 6.4.110 -- Source: CIA 1196 III-1**

When an organization depends to a great extent on its environment, which of the following statements best characterizes the relationship among an organization's environment, the level of uncertainty it faces, and its structure? The more dynamic and complex the environment, the

- A. More uncertainty the organization will face and the more organic the structure should be.
- B. More uncertainty the organization will face and the more mechanistic the structure should be.
- C. Less uncertainty the organization will face and the more autocratic the structure should be.
- D. Less uncertainty the organization will face and the more organic the structure should be.

**[408] Gleim #: 6.4.111 -- Source: CIA 595 III-9**

In what form of organization does an employee report to multiple managers?

- A. Bureaucracy.
- B. Matrix.
- C. Departmental.
- D. Mechanistic.

**[409] Gleim #: 6.4.112 -- Source: CIA 1196 III-3**

The relationship between organizational structure and technology suggests that, in an organization using mass production technology (for example, automobile manufacturing), the best structure is

- A. Organic, emphasizing loose controls and flexibility.
- B. Matrix, in which individuals report to both product and functional area managers.
- C. Mechanistic, that is, highly formalized with tight controls.
- D. Integrated, emphasizing cooperation among departments.

**[410] Gleim #: 6.4.113 -- Source: CIA 1195 III-24**

As an organization increases the number of employees, its structure becomes more complex. Rules become more formalized and more supervisors are hired to direct the increased numbers of subordinates. What is the nature of the size-structure relationship?

- A. The size-structure relationship is linear.
- B. The structure becomes fixed once an organization attains a level of about 200 employees.
- C. The size-structure relationship is concave.
- D. None of the answers are correct.

**[411] Gleim #: 6.4.114 -- Source: CIA 1194 III-9**

Centralization and decentralization are defined according to the relative delegation of decision-making authority by top management. Many managers believe that decentralized organizations have significant advantages over centralized organizations. A major advantage of a decentralized organization is that

- A. Decentralized organizations are easier to control.
- B. Decentralized structures streamline organizations and eliminate duplication of resources.
- C. Decentralized organizations have fewer managers than centralized organizations.
- D. Decentralized organizations encourage increased initiative among employees.

**[412] Gleim #: 6.4.115 -- Source: CIA 1192 III-9**

The optimal span of control of a manager is contingent upon several situational variables. For instance, a manager supervising workers within the same work area who are performing identical tasks that are simple and repetitive would best be able to supervise

- A. An unlimited number of employees.
- B. Only a few workers (a narrow span of control).
- C. A relatively large number of employees (a wide span of control).
- D. Fewer workers than if the workers were geographically dispersed.

**[413] Gleim #: 6.4.116 -- Source: Publisher**

Which type of organization is based upon strategic long-term relationships based upon implicit contracts and coordination through adaptation?

- A. Hourglass organization.
- B. Cluster organization.
- C. Network organization.
- D. Virtual organization.

**[414] Gleim #: 6.4.117 -- Source: Publisher**

A public university is a

- A. Commonweal organization.
- B. Business organization.
- C. Nonprofit service organization.
- D. Mutual benefit organization.

**[415] Gleim #: 6.4.118 -- Source: Publisher**

Although bureaucracy is often perceived negatively by the public, it is a feature of nearly every large company. Which of the following is a sign that a bureaucracy is dysfunctional?

- A. A diversity of jobs.
- B. Rules that obscure responsibility.
- C. A large number of rules necessary for day to day operations.
- D. Obedience to authority.

**[416] Gleim #: 6.4.119 -- Source: Publisher**

Halo Corporation consists of ten groups, each of which is composed of multi-skilled workers. Workers are often transferred between teams as needed and communication between and within groups is emphasized. Halo Corporation is best described as a(n)

- A. Hourglass organization.
- B. Cluster organization.
- C. Network organization.
- D. Virtual organization.



**[417] Gleim #: 6.4.120 -- Source: CIA 586 III-5**

The CEO of a rapidly growing high-technology firm has exercised centralized authority over all corporate functions. Because the company now operates in four geographically dispersed locations, the CEO is considering the advisability of decentralizing operational control over production and sales. Which of the following conditions probably will result from and be a valid reason for decentralizing?

- A. Greater local control over compliance with governmental regulations.
- B. More efficient use of headquarters staff officials and specialists.
- C. Lower overall operating costs.
- D. Quicker and better operating decisions.

**[418] Gleim #: 6.4.121 -- Source: CIA 1196 II-29**

Which organizational structure will likely have unity-of-command problems unless frequent and comprehensive communication occurs among the various functional and project managers?

- A. Line and staff.
- B. Strategic business unit.
- C. Centralized.
- D. Matrix.

**[419] Gleim #: 6.4.122 -- Source: CIA 588 III-4**

Which management principle is violated when an employee answers to several bosses?

- A. Authority.
- B. Division of work.
- C. Span of control.
- D. Unity of command.

**[420] Gleim #: 6.4.123 -- Source: CIA 594 III-52**

How an organization's structure relates to the environment in which it operates is important to its success. The structure of the organization can be mechanistic (a rigid pyramid-shaped organization) or organic (a flexible and adaptive organization). Which of the following items is not characteristic of the interaction between an organization's environment and its structure?

- A. The more dynamic the environment, the more the organization's structure should be organic.
- B. The more complex the environment, the more the organization's structure should be mechanistic.
- C. The more stable the environment, the more the organization's structure should be mechanistic.
- D. The more scarce the environment, the more the organization's structure should be organic.

**[421] Gleim #: 6.4.124 -- Source: CIA 594 III-87**

Environmental factors that are important to the organization include all of the following except

- A. Competitors.
- B. Physical resources.
- C. The economy.
- D. Uncertainty.

**[422] Gleim #: 6.4.125 -- Source: CIA 594 III-84**

Which of the following is not true with regard to matrix structures for organizations?

- A. It is akin to functional structures in that it fosters specialization.
- B. It is akin to divisional structures in that it has an explicit focus on results.
- C. It only works well when the organization's projects or products have a short life cycle.
- D. The major disadvantage of matrix structures is their potential for creating confusion and power struggles.

**[423] Gleim #: 6.4.126 -- Source: CIA 1185 III-5**

Which of the following is most likely to be a disadvantage of decentralization?

- A. Lower-level employees will develop less rapidly than in a centralized organization.
- B. Lower-level employees will complain of not having enough to do.
- C. Top management will have less time available to devote to unique problems.
- D. Lower-level managers may make conflicting decisions.

**[424] Gleim #: 6.4.127 -- Source: CIA 585 III-8**

The difference between a tall organizational structure and a flat organizational structure is that in the former

- A. The communication process takes longer and is of poorer quality.
- B. Maintenance of the organization is less costly.
- C. The morale of lower-level employees is generally higher.
- D. A higher degree of coordination and cooperation is created.

**[425] Gleim #: 6.4.128 -- Source: CIA 1191 III-3**

Which of the following factors is least likely to affect a manager's optimal span of control?

- A. Frequency of supervisor-subordinate contact.
- B. The manager's willingness to delegate authority.
- C. The manager's training and communication skills.
- D. Number of people in the organization.

**[426] Gleim #: 6.4.129 -- Source: Publisher**

Departmentation is the grouping of organizational subsystems. The greatest advantage of functional departmentation is that it

- A. Provides the benefits of specialization.
- B. Facilitates communication among primary functions.
- C. Helps to focus on achievement of organizational goals.
- D. Is appropriate for geographically dispersed organizations.

**[427] Gleim #: 6.4.130 -- Source: Publisher**

Dual reporting is most characteristic of which method of departmentation?

- A. Territorial.
- B. Functional.
- C. Product.
- D. Matrix.

**[428] Gleim #: 6.4.131 -- Source: Publisher**

A divisional arrangement organizational structure is most likely to be found in what kind of organizational structure?

- A. Mechanistic.
- B. Organic.
- C. Bureaucratic.
- D. Classical.

**[429] Gleim #: 6.4.132 -- Source: Publisher**

The term for the organizational design strategy favored by the classical school of management is

- A. Mechanistic.
- B. Organic.
- C. Project management.
- D. Contingency.

**[430] Gleim #: 6.4.133 -- Source: Publisher**

A large organization uses assembly line techniques to manufacture a single product. Its choice of relatively mechanistic organizational design was most likely based on its

- A. Need for rapid response to environmental change.
- B. Primary concern for operational efficiency.
- C. Low fixed technology requirement.
- D. Project management emphasis.

**[431] Gleim #: 6.4.134 -- Source: Publisher**

A characteristic of a bureaucratic organizational structure is that

- A. It is small and simple.
- B. Work assignments are rarely delegated.
- C. No hierarchy must be followed for communications purposes.
- D. The divisions of labor are distinct.

**[432] Gleim #: 6.4.135 -- Source: Publisher**

Which of the following is an advantage of bureaucratic organizational structures?

- A. The routine activities and performance methods related to a particular task are invariable and clearly defined to the employee.
- B. Open positions are filled by individuals recruited from outside the organization to bring in new perspectives and backgrounds.
- C. The organizations are typically decentralized to allow a subunit manager to make more timely decisions.
- D. The minimization of the opportunity for social interaction enhances efficiency.

**[433] Gleim #: 6.4.136 -- Source: Publisher**

A likely effect of a bureaucratic structure on employee motivation is that

- A. Employee performance will be mediocre because of inflexible standards and impersonal surroundings.
- B. An employee will pursue organizational goals because of the employee's participation in establishing them.
- C. Morale will be high because of each employee's feeling of belonging and ownership.
- D. Job enrichment will be high because of each employee's involvement in developing and adapting his/her job description and required tasks.

**[434] Gleim #: 6.4.137 -- Source: Publisher**

Which of the following is a disadvantage of a flat organizational structure?

- A. Employees are not encouraged to be creative.
- B. The input of fresh ideas from outside the organization is limited because employee turnover is low.
- C. Managers spend too much time training individuals and not enough time supervising.
- D. Employees may not be performing work tasks properly.

**[435] Gleim #: 6.4.138 -- Source: Publisher**

Which of the following is a likely effect of a narrow span of control?

- A. The manager closely supervises employees.
- B. Each employee is given more responsibility.
- C. The organizational structure is flexible.
- D. The manager's control over employees is limited.

**[436] Gleim #: 6.4.139 -- Source: Publisher**

When determining the appropriate span of control, the most important consideration is

- A. The set of policies and procedures currently in effect.
- B. The typical span of control used by other organizations.
- C. The preference of the organization's creditors.
- D. That all departments will be evaluated, whether or not they will be affected.

**[437] Gleim #: 6.4.140 -- Source: CIA 1194 III-7**

The organizational structure most appropriate for product development activity is

- A. Organic.
- B. Geographic.
- C. Centralized.
- D. Mechanistic.

**[438] Gleim #: 6.4.141 -- Source: CIA 1194 III-12**

A small furniture manufacturer with 100 employees is located in a two-story building and does not plan to expand. The furniture manufactured is not special-ordered or custom-made. Its most likely organization structure is

- A. Functional departmentation.
- B. Product departmentation.
- C. Matrix organization.
- D. Divisional organization.

**[439] Gleim #: 6.4.142 -- Source: CIA 1195 III-6**

Internal auditors frequently recommend that formal policies be written. However, the presence of certain conditions in an organization minimizes the need for written policies. One condition that minimizes the need for written policies is

- A. A high division of labor.
- B. A strong organizational culture.
- C. A large span of control.
- D. A strict unity of command.

**[440] Gleim #: 6.4.143 -- Source: CIA 1195 III-21**

An organization that combines strict adherence to the unity of command with high division of labor may cause problems for customers trying to obtain information. Of the following, which is the most probable type of internal environment this structure creates?

- A. Networked and formal.
- B. Compartmentalized and informal.
- C. Networked and informal.
- D. Compartmentalized and formal.

**[441] Gleim #: 6.4.144 -- Source: CIA 589 II-16**

An organization manufactures mirror frames. Scrap is adequately accounted for at the point of generation. The scrap is sorted and sold frequently to the organization's regular buyer at a price negotiated between the scrap manager and buyer. An exposure caused by these procedures is that

- A. Excessive scrap has been generated.
- B. The price received for scrap may be inadequate.
- C. The production of scrap indicates inefficiencies in production.
- D. The collection of amounts receivable from the scrap buyer is questionable.

**[442] Gleim #: 6.4.145 -- Source: CIA 590 II-11**

Management is concerned with the potential for unauthorized changes in the payroll. Which of the following is the proper organizational structure to prevent such unauthorized changes?

- A. The payroll department maintains and authorizes all changes in the personnel records.
- B. The payroll department is supervised by the management of the human resources division.
- C. The payroll department's functions are limited to maintaining the payroll records, distributing paychecks, and posting the payroll entries to the general ledger.
- D. The personnel department authorizes the hiring and pay levels of all employees.

**[443] Gleim #: 6.5.146 -- Source: Publisher**

According to the contingency theory of leadership, a manager will be most effective when (s)he

- A. Consistently initiates structure.
- B. Adapts his/her style to specific circumstances.
- C. Is task oriented.
- D. Is relationship oriented.

**[444] Gleim #: 6.5.147 -- Source: Publisher**

Which of the following is true regarding the most recent traitist approach to leadership?

- A. It attempts to identify traits possessed by leaders.
- B. It has produced such a long list of leadership traits that, in effect, it identifies nothing.
- C. It is based on scholarship, dependability, and social participation.
- D. It is based on social skills, judgment, maturity, and emotional control.

**[445] Gleim #: 6.5.148 -- Source: Publisher**

Which of the following leadership types is best known as an agent of change?

- A. Participative leader.
- B. Traitist leader.
- C. Transformational leader.
- D. Free-rein leader.

**[446] Gleim #: 6.5.149 -- Source: Publisher**

Leadership situations vary with regard to the degree to which the leader can determine what subordinates will do, how they will do it, and what the results will be. According to Fiedler's contingency theory, a leader with a relationship-oriented management style will be most effective when (s)he exerts

- A. Great control.
- B. Moderate control.
- C. Little control.
- D. Great or little control.

**[447] Gleim #: 6.5.150 -- Source: CIA 1196 II-26**

If a supervisor uses a supportive management approach, evidenced by positive feelings and concern for subordinates, a problem might result because

- A. An approach based on pure power makes it difficult to motivate staff.
- B. This approach depends on material rewards for the worker.
- C. This approach depends on people who want to work, grow, and achieve.
- D. The manager must believe in the teamwork approach.

**[448] Gleim #: 6.5.151 -- Source: Publisher**

Which of the following statements is true regarding authoritarian leadership styles?

- A. The manager dictates all decisions to the employees, so communication is downward and tasks are clearly defined in authoritarian leadership.
- B. Employees in a group are given the authority and responsibility to make their own decisions in democratic leadership.
- C. The leader delegates substantial authority and employees participate in defining and assigning tasks in laissez faire leadership.
- D. None of the answers are correct.

**[449] Gleim #: 6.5.152 -- Source: CIA 596 III-6**

The manager of a team of actuaries has been asked to develop the basic pricing structure for a new health insurance product. The team has successfully designed other pricing structures in recent years. The manager was assigned to the team 6 months ago. What is the best leadership style for the manager of this team?

- A. Directive.
- B. Supportive.
- C. Participative.
- D. Achievement-oriented.

**[450] Gleim #: 6.5.153 -- Source: CIA 596 III-4**

The workers in a factory have been told that their machines are obsolete and will be replaced by new, computer-assisted machines. The workers must be retrained and are eager to learn everything about the new machines. The manager was recently hired from a company where the new machines were extensively used and is very familiar with them. In this case, what is the best leadership style for the manager?

- A. Directive.
- B. Supportive.
- C. Participative.
- D. Achievement-oriented.

**[451] Gleim #: 6.5.154 -- Source: CIA 596 III-5**

A production team has been together for several years and has worked well together. However, severe arguments have recently occurred between two members of the group, and other members have begun to take sides. This problem has had a negative effect on production performance. The best leadership style for the manager in this situation is

- A. Directive.
- B. Supportive.
- C. Participative.
- D. Achievement-oriented.

**[452] Gleim #: 6.5.155 -- Source: CIA 596 III-7**

A manager in a government agency supervises a section of clerical employees who review license applications for approval or denial. The clerical jobs are well defined procedurally and are covered by government regulations. In this case, what is the best leadership style for the manager?

- A. Directive.
- B. Supportive.
- C. Participative.
- D. Achievement-oriented.

**[453] Gleim #: 6.5.156 -- Source: CIA, adapted**

A leader who explains decisions and provides opportunity for clarification is described as having which leadership style?

- A. Selling.
- B. Telling.
- C. Participating.
- D. Delegating.

**[454] Gleim #: 6.5.157 -- Source: Publisher**

Which of the following constitute initiating structure behavior?

- I. Defining duties
- II. Planning and organizing work
- III. Helping with problems in the work

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

**[455] Gleim #: 6.5.158 -- Source: Publisher**

In the leadership grid developed by Robert Blake and Jane Mouton, each axis has a scale of 1 to 9. A primary style of 9,9 indicates

- A. Little concern for production or people (impoverished management).
- B. Moderate concern for production and people to maintain status quo (middle-of-the-road management).
- C. Great concern for production and people, trust, teamwork, and commitment (team management).
- D. Primary concern for production, little concern for people (authority-compliance management).

**[456] Gleim #: 6.5.159 -- Source: Publisher**

Leadership styles differ depending upon the personality type of the individual leader. A risk-averse leader will generally

- A. Make decisions more slowly.
- B. Require less information than a risk taker.
- C. Maintain status differences between themselves and others.
- D. Work well in participative efforts where joint responsibility is assumed by several people.

**[457] Gleim #: 6.5.160 -- Source: CIA 597 III-10**

Leaders of work groups tend to be primarily task-motivated (getting the job done) or relationship-motivated (getting people to work effectively together). Studies have shown that either type of leader can be effective in certain situations. In which of the following situations is the relationship-motivated leader likely to be more effective than the task-motivated leader?

- A. A highly favorable situation, in which group members enjoy working together and have clearly defined tasks, and in which the leader exercises absolute authority over promotions and other rewards.
- B. A highly unfavorable situation, in which group members do not enjoy working together and have vaguely defined tasks, and in which the leader lacks formal authority to control promotions and other rewards.
- C. A moderately favorable situation, with a combination of favorable and unfavorable factors.
- D. All of the answers are correct.

**[458] Gleim #: 6.5.161 -- Source: CIA 591 III-14**

A production worker in a plant often speaks for the entire work force when problems arise between labor and management. Although this individual has the same level of authority and expertise as the individual's coworkers, the worker seems to possess a degree of power that others do not have. What type of power does this individual apparently have?

- A. Coercive.
- B. Referent.
- C. Legitimate.
- D. Reward.

**[459] Gleim #: 6.5.162 -- Source: Publisher**

The traitist approach attempted to identify the physical, mental, and psychological traits of various leaders. It produced such a long list of leadership traits that, in effect, it identified nothing. However, a few traits do seem to have significant correlation with a leader's effectiveness. These traits include all of the following except

- A. Social participation and interest.
- B. Socioeconomic status.
- C. Dependability.
- D. Height.

**[460] Gleim #: 6.5.163 -- Source: Publisher**

A manager that manages "by the book" exhibits which form of leadership style?

- A. Autocratic.
- B. Bureaucratic.
- C. Democratic.
- D. Free-rein.

**[461] Gleim #: 6.6.164 -- Source: CIA 597 III-15**

A major corporation is considering significant organizational changes. Which of the following groups will not be responsible for implementing these changes?

- A. Employees.
- B. Top management.
- C. Common shareholders.
- D. Outside consultants.

**[462] Gleim #: 6.6.165 -- Source: CIA 1196 III-16**

Lack of skills, threats to job status and security, and fear of failure have all been identified as reasons that employees often

- A. Want to change the culture of their organization.
- B. Are dissatisfied with the structure of their organization.
- C. Are unable to perform their jobs.
- D. Resist organizational change.

**[463] Gleim #: 6.6.166 -- Source: CIA 1196 III-18**

Organizational development (OD) is one of the major approaches to proactive management of change in organizations. One of the major objectives of OD is to

- A. Increase the power of leaders.
- B. Align the organization's and the employees' goals.
- C. Attract better employees to the organization.
- D. Provide the organization and its managers with ways to increase efficiency.



**[464] Gleim #: 6.6.167 -- Source: CIA 596 III-24**

An organization's management perceives the need to make significant changes. Which of the following factors is management least likely to be able to change?

- A. The organization's members.
- B. The organization's structure.
- C. The organization's environment.
- D. The organization's technology.

**[465] Gleim #: 6.6.168 -- Source: CIA 1195 III-29**

An internal auditor is conducting an operational review that affects several different functional units. The auditor believes that the process under review can be improved, but the operating managers are resistant to suggestions for change. There are several methods the auditor could use to overcome the operating managers' resistance. Identify the technique that will produce the highest probability of success with the fewest negative side effects.

- A. Negotiation with the operating managers.
- B. Participation by the managers in the decision process.
- C. Coercion of the managers through threats.
- D. Cooperation by approaching each manager individually.

**[466] Gleim #: 6.6.169 -- Source: Publisher**

Mayan Tech changed its design software to meet competition. According to Nadler and Tushman, this kind of organizational change is a

- A. Strategic reactive change.
- B. Incremental reactive change.
- C. Strategic anticipatory change.
- D. Incremental anticipatory change.

**[467] Gleim #: 6.6.170 -- Source: Publisher**

The employees of X Corp. displayed excessive optimism following an announcement by management of major strategic changes soon to be implemented. What stage of change will employees most often experience next?

- A. Constructive adjustment.
- B. Joking about the change.
- C. Lack of needed skills.
- D. Reality check.

**[468] Gleim #: 6.6.171 -- Source: Publisher**

Co-optation is a

- A. Method of coping with employee resistance.
- B. Cause of resistance to change.
- C. Model for categorizing organizational changes.
- D. Way of allowing meaningful input by resistant employees.

**[469] Gleim #: 6.6.172 -- Source: Publisher**

Employee resistance to change may be caused

- A. Only by simple surprise or by inertia.
- B. By manipulation of information or events.
- C. By bad timing.
- D. Coercion.

**[470] Gleim #: 6.6.173 -- Source: Publisher**

Which stage of organizational development (OD) is the diagnosis stage?

- A. Change.
- B. Unfreezing.
- C. Refreezing.
- D. Liquidation.

**[471] Gleim #: 6.6.174 -- Source: Publisher**

A small group of employees at Mega Corp. have organized with the purpose of making a few small incremental changes within the company. This group of change agents has been very productive by taking thoughtful, well-prepared actions towards developing definitions of problems, evaluating assumptions, and estimating costs and benefits of solutions. Despite their initial success, these tempered radicals have had trouble carrying their plan forward due to the lack of a champion. This group is at what step in the 5P checklist for change agents?

- A. Preliminary.
- B. Persistence.
- C. Preparation.
- D. Progress.

**[472] Gleim #: 6.6.175 -- Source: CIA 04 Model Exam I-66**

Of the following reasons for employees to resist a major change in organizational processes, which is **least** likely?

- A. Threat of loss of jobs.
- B. Required attendance at training classes.
- C. Breakup of existing work groups.
- D. Imposition of new processes by senior management without prior discussion.

**[473] Gleim #: 6.6.176 -- Source: CIA 04 Model Exam I-68**

An organization is changing to a quality assurance program that incorporates quality throughout the process. This is very different from its years of dependence on quality control at the end of the process. This type of change is a:

- A. Cultural change.
- B. Product change.
- C. Structural change.
- D. Organizational change.

**[474] Gleim #: 6.6.177 -- Source: CIA 04 Model Exam I-69**

A chief audit executive plans to make changes that may be perceived negatively by the audit staff. The best way to reduce resistance would be to:

- A. Develop the new approach fully before presenting it to the audit staff.
- B. Ask the chief executive officer (CEO) to approve the changes and have the CEO attend the departmental staff meeting when they are presented.
- C. Approach the staff with the general idea and involve them in the development of the changes.
- D. Get the internal audit activity's clients to support the changes.

**[475] Gleim #: 6.6.178 -- Source: Publisher**

Organizational change must be considered in the light of potential employee resistance. Resistance

- A. May occur even though employees will benefit from the change.
- B. Will be greatest when informal groups are weakest.
- C. Will be insignificant if no economic loss by employees is expected.
- D. Is centered mostly on perceived threats to psychological needs.

**[476] Gleim #: 6.7.179 -- Source: Publisher**

Matthew and Nick are working on similar projects. After a review, Matthew informs Nick that his work contains many errors and is not acceptable. Matthew discusses with Nick ways to improve the quality of his work. Nick acknowledges his mistakes and vows to work harder. He listens to Matthew's suggestions and corrects the errors on the current project. This is an example of

- A. Cooperative conflict.
- B. Competitive conflict.
- C. Destructive conflict.
- D. None of the answers are correct.

**[477] Gleim #: 6.7.180 -- Source: Publisher**

Conflict may be

- I. Cooperative
- II. Competitive

- A. I only.
- B. II only.
- C. Both I and II.
- D. Neither I nor II.

**[478] Gleim #: 6.7.181 -- Source: Publisher**

Which of the following conflict triggers is best resolved by reorganization?

- A. Scarcity of people, funds, or other resources.
- B. Badly defined job descriptions.
- C. Failure of communication.
- D. Deadlines.

**[479] Gleim #: 6.7.182 -- Source: CIA, adapted**

Which of the following conflict resolution techniques has the goal of maintaining harmonious relationships by placing another's needs and concerns above your own?

- A. Accommodation.
- B. Compromise.
- C. Collaboration.
- D. Avoidance.

**[480] Gleim #: 6.7.183 -- Source: Publisher**

Time consumption is a disadvantage when managers address conflict by

- A. Smoothing.
- B. Forcing.
- C. Problem solving.
- D. None of the answers are correct.

**[481] Gleim #: 6.7.184 -- Source: Publisher**

Carling, a manager, resolves a conflict between two employees, Philip and John, by recommending concessions to be made by both employees. The two employees agree to the concessions and the conflict is resolved. Both Philip and John gain and lose. Which of the following describes the way Carling addressed the conflict?

- A. Forcing.
- B. Smoothing.
- C. Compromise.
- D. Problem solving.

**[482] Gleim #: 6.7.185 -- Source: CIA 04 Model Exam I-70**

During a meeting of an internal audit project team, two members of the team disagree, and one accuses the other of trying to advance personal interests over the interests of the audit. The audit manager should:

- A. Discipline both auditors after the meeting for their lack of professional conduct.
- B. Continue the meeting but speak to the accusing auditor later regarding the inappropriate conduct.
- C. Meet with both auditors after the meeting to resolve the conflict and the inappropriate behavior.
- D. Stop the meeting and refer the matter to the entire team for discussion.

**[483] Gleim #: 6.7.186 -- Source: CIA 594 II-12**

Two subordinate internal auditors disagree on a particular substantive engagement observation. The best long-term approach to resolving this conflict is to

- A. Have them jointly identify the cause of their disagreement.
- B. Tell them to settle down, that things will work themselves out.
- C. Seek a middle ground that may satisfy both internal auditors.
- D. Remind them this is a team effort and they should forget their differences.

**[484] Gleim #: 6.7.187 -- Source: CIA 1196 II-33**

During an internal audit, the auditor experienced difficulty obtaining required information from a specific employee. When this situation continued for one week, the auditor requested a private meeting with the employee for the purpose of identifying the problem and resolving the difficulty through open discussion. Which conflict management technique was the auditor applying?

- A. Problem solving.
- B. Expansion of resources.
- C. Authoritative command.
- D. Altering the human variable.

**[485] Gleim #: 6.7.188 -- Source: CIA 596 III-8**

One division of a large manufacturing company has traditionally performed much better than any of the other divisions. The management team of this division has risen through the ranks together and exhibits no signs of conflict. Recently, earnings of the division have begun to decline, and market share has eroded. Senior management of the parent company has asked the director of internal audit whether the introduction of conflict by bringing in outside managers might help resolve the deteriorating situation. The most appropriate response would be that

- A. Conflict is dysfunctional and should not be risked under these circumstances.
- B. All conflict can be beneficially controlled and should be encouraged in this situation.
- C. The management team has been together for a long time and should be allowed to work through its problems.
- D. Varying the management team could introduce new ideas and be beneficial to the division, and some conflict is not a problem.

**[486] Gleim #: 6.7.189 -- Source: CIA 595 II-31**

Upon completing an audit of a major operation of the company, the auditor is certain that a proposed recommendation should be made in the audit report. However, the auditor also understands that the recommendation will result in conflict between the auditee department and the accounting department. The organization is not bureaucratic and encourages the development of informal relationships across departments. Which of the following statements is true regarding the nature of conflict in organizations?

- A. Conflict is more likely to be functional in a bureaucratic organization than in a less formal (organic-type) organization.
- B. Conflict reduces the likelihood that an acceptable solution can be implemented in highly structured organizations; thus the auditor should consider revising the recommendation in order to avoid conflict.
- C. Conflict should be viewed as a healthy way to facilitate growth in an organization; thus the auditor should accept conflict that may result from normal audit recommendations.
- D. Conflict is healthy unless it clearly points out differences in the goals and objectives of the organization's operating units.

**[487] Gleim #: 7.1.1 -- Source: CIA 592 I-11**

Internal auditors should develop and record a plan for each engagement. The planning process should include all the following except

- A. Establishing engagement objectives and scope of work.
- B. Obtaining background information about the activities to be reviewed.
- C. Identifying sufficient information to achieve engagement objectives.
- D. Determining how, when, and to whom the engagement results will be communicated.

**[488] Gleim #: 7.1.2 -- Source: CIA 1191 II-9**

An outside consultant is developing methods for the management of a city's capital facilities. An appropriate scope of an engagement to evaluate the consultant's product is to

- A. Review the consultant's contract to determine its propriety.
- B. Establish the parameters of the value of the items being managed and controlled.
- C. Determine the adequacy of the risk management and control systems for the management of capital facilities.
- D. Review the handling of idle equipment.

**[489] Gleim #: 7.1.3 -- Source: CIA 1191 I-15**

Documentation required to plan an internal auditing engagement should include information that

- A. Resources needed to complete the engagement were considered.
- B. Planned engagement work will be completed on a timely basis.
- C. Intended engagement observations have been clearly identified.
- D. Internal audit activity resources are efficiently and effectively employed.

**[490] Gleim #: 7.1.4 -- Source: CIA 587 II-15**

Which of the following is least likely to be placed on the agenda for discussion at a pre-engagement meeting?

- A. Purpose and scope of the engagement.
- B. Records and client personnel needed.
- C. Sampling plan and key criteria.
- D. Expected starting and completion dates.

**[491] Gleim #: 7.1.5 -- Source: CIA 591 II-32**

One of the primary roles of an engagement work program is to

- A. Serve as a tool for planning and conducting engagement work.
- B. Document an internal auditor's evaluations of controls.
- C. Provide for a standardized approach to the engagement.
- D. Assess the risks associated with the activity under review.

**[492] Gleim #: 7.1.6 -- Source: CIA 592 II-18**

Engagement work programs testing controls should

- A. Be tailored for each operation evaluated.
- B. Be generalized to fit all situations without regard to departmental lines.
- C. Be generalized so as to be usable at all locations of a particular department.
- D. Reduce costly duplication of effort by ensuring that every aspect of an operation is examined.

**[493] Gleim #: 7.1.7 -- Source: CIA 590 I-11**

The chief audit executive was reviewing recent reports that had recommended additional engagements because of risk exposures to the organization. Which of the following represents the greatest risk and should be the next assignment?

- A. Three prenumbered receiving reports were missing.
- B. There were several purchase orders issued without purchase requisitions.
- C. Payment had been made for routine inventory items without a purchase order or receiving report.
- D. Several times cash receipts had been held over an extra day before depositing.

**[494] Gleim #: 7.1.8 -- Source: CIA 1188 I-23**

An internal auditing supervisor reviewed the system of controls and the organizational objective of the purchasing department. What facet of engagement planning was the supervisor developing?

- A. Internal auditing policy manual.
- B. Engagement work schedule.
- C. Engagement work program.
- D. Internal auditing budget.

**[495] Gleim #: 7.1.9 -- Source: CIA 585 II-13**

In developing an engagement work program and communicating engagement results, the internal auditor should be alert for a condition that might reflect low materiality of an observation but high relative risk to the overall operation of the organization. Which of the following conditions would reflect such a situation?

- A. Many random clerical errors arise from the desire of employees to meet production quotas.
- B. No written quality-assurance procedure exists for a high-volume production line item with low unit cost that has a 15% scrap experience.
- C. The cashier is commingling personal funds with a \$1,000 imprest cash fund.
- D. Levels of approval authority for purchasing personnel are not set forth in the manual of purchasing procedures.

**[496] Gleim #: 7.2.10 -- Source: CIA 1192 II-22**

The scope of an internal auditing engagement is initially defined by the

- A. Engagement objectives.
- B. Scheduling and time estimates.
- C. Preliminary survey.
- D. Engagement work program.

**[497] Gleim #: 7.2.11 -- Source: Publisher**

The established scope of the engagement should be sufficient to satisfy the objectives of the engagement. When developing the objectives of the engagement, the internal auditor should consider the

- A. Probability of significant noncompliance.
- B. Information included in the engagement work program.
- C. Results of engagement procedures.
- D. Resources required.

**[498] Gleim #: 7.2.12 -- Source: CIA 1184 II-25**

Which of the following is the best explanation of the difference, if any, between engagement objectives and procedures?

- A. Procedures establish broad general goals; objectives specify the detailed work to be performed.
- B. Objectives are tailor-made for each engagement; procedures are generic in application.
- C. Objectives define desired accomplishments; procedures provide the means of achieving objectives.
- D. Procedures and objectives are essentially the same.

**[499] Gleim #: 7.2.13 -- Source: CIA 1192 II-23**

Which of the following statements is an engagement objective?

- A. Observe the deposit of the day's cash receipts.
- B. Analyze the pattern of any cash shortages.
- C. Evaluate whether cash receipts are adequately safeguarded.
- D. Recompute each month's bank reconciliation.

**[500] Gleim #: 7.2.14 -- Source: CIA 1194 I-11**

In planning an engagement, the internal auditor should establish objectives and procedures to address the risk associated with the activity. Risk is defined as

- A. The possibility that the balance or class of transactions and related assertions contains misstatements that could be material to the financial statements.
- B. The uncertainty of the occurrence of an event that could affect the achievement of objectives.
- C. The failure to adhere to organizational policies, plans, and procedures or to comply with relevant laws and regulations.
- D. The failure to accomplish established objectives and goals for operations or programs.

**[501] Gleim #: 7.2.15 -- Source: CIA 1194 I-9**

Which of the following activities represents the greatest risk to a post-merger manufacturing organization and is therefore most likely to be the subject of an internal auditing engagement?

- A. Combining imprest funds.
- B. Combining purchasing functions.
- C. Combining legal functions.
- D. Combining marketing functions.

**[502] Gleim #: 7.2.16 -- Source: CIA 1194 I-14**

In planning an assurance engagement, a survey could assist with all of the following, except

- A. Obtaining engagement client comments and suggestions on control problems.
- B. Obtaining preliminary information on controls.
- C. Identifying areas for engagement emphasis.
- D. Evaluating the adequacy and effectiveness of controls.

**[503] Gleim #: 7.2.17 -- Source: CIA R98 I-1**

An assurance engagement in the quality control department is being planned. Which of the following is least likely to be used in the preparation of a preliminary survey questionnaire?

- A. An analysis of quality control documents.
- B. The permanent engagement file.
- C. The prior engagement communications.
- D. Management's charter for the quality control department.

**[504] Gleim #: 7.2.18 -- Source: CIA 1192 I-12**

The internal-auditor-in-charge has just been informed of the next engagement and the assigned engagement team. What is the appropriate phase for finalizing the time budget?

- A. During formulation of the internal audit activity's engagement work schedule.
- B. After the preliminary survey.
- C. During the initial planning meeting.
- D. After the completion of all field work.

**[505] Gleim #: 7.2.19 -- Source: CIA 1192 I-21**

An internal auditor has just completed a survey to become familiar with the organization's payroll operations. Which of the following should be performed next?

- A. Assign internal audit personnel.
- B. Establish initial engagement objectives.
- C. Write the engagement work program.
- D. Conduct field work.

**[506] Gleim #: 7.2.20 -- Source: CIA 589 II-14**

During which phase of the engagement does the internal auditor identify the objectives and related controls of the activity being examined?

- A. Preliminary survey.
- B. Staff selection.
- C. Work program preparation.
- D. Final communication of results.

**[507] Gleim #: 7.2.21 -- Source: CIA 595 I-70**

The preliminary survey indicates that severe staff reductions at the engagement location have resulted in extensive amounts of overtime among accounting staff. Department members are visibly stressed and very vocal about the effects of the cutbacks. Accounting payrolls are nearly equal to prior years, and many key controls, such as segregation of duties, are no longer in place. The accounting supervisor now performs all operations within the cash receipts and posting process and has no time to review and approve transactions generated by the remaining members of the department. Journal entries for the last 6 months since the staff reductions show increasing numbers of prior-month adjustments and corrections, including revenues, cost of sales, and accruals that had been misstated or forgotten during month-end closing activity. The internal auditor should

- A. Discuss these observations with management of the internal audit activity to determine whether further work would be an efficient use of internal auditing resources at this time.
- B. Proceed with the scheduled engagement but add personnel based on the expected number of observations and anticipated lack of assistance from local accounting management.
- C. Research temporary help agencies and evaluate the cost and benefit of outsourcing needed services.
- D. Suspend further engagement work because the observations are obvious and make the final communication of results.

**[508] Gleim #: 7.2.22 -- Source: CIA 597 I-30**

Which of the following best describes a preliminary survey?

- A. A standardized questionnaire used to obtain an understanding of management objectives.
- B. A statistical sample of key employee attitudes, skills, and knowledge.
- C. A "walk-through" of the financial control system to identify risks and the controls that can address those risks.
- D. A process used to become familiar with activities and risks in order to identify areas for engagement emphasis.

**[509] Gleim #: 7.2.23 -- Source: CIA 597 I-42**

The internal auditors of a financial institution are performing an engagement to evaluate the institution's investing and lending activities. During the last year, the institution has adopted new policies and procedures for monitoring investments and the loan portfolio. The internal auditors know that the organization has invested in new types of financial instruments during the year and is heavily involved in the use of financial derivatives to appropriately hedge risks. If the internal auditors were to conduct a preliminary review, which of the following procedures should be performed?



- A. Review reports of engagements performed by regulatory and external auditors since the last internal auditing engagement.
- B. Interview management to identify changes made in policies regarding investments or loans.
- C. Review minutes of board meetings to identify changes in policies affecting investments and loans.
- D. All of the answers are correct.

**[510] Gleim #: 7.2.24 -- Source: CIA 1195 I-38**

An internal auditor conducts a preliminary survey and identifies a number of significant engagement issues and reasons for pursuing them in more depth. The engagement client informally communicates concurrence with the preliminary survey results and asks that the internal auditor not report on the areas of significant concern until the client has an opportunity to respond to the problem areas. Which of the following engagement responses is not appropriate?

- A. Keep the engagement on schedule and discuss with management the need for completing the engagement on a timely basis.
- B. Consider the risk involved in the areas involved, and, if the risk is high, proceed with the engagement.
- C. Consider the engagement to be terminated with no communication of results needed because the engagement client has already agreed to take constructive action.
- D. Work with the engagement client to keep the engagement on schedule and address the significant issues in more depth, as well as the client's responses, during the course of the engagement.

**[511] Gleim #: 7.2.25 -- Source: CIA 04 Model Exam I-79**

During a preliminary survey, an auditor found that several accounts payable vouchers for major suppliers required adjustments for duplicate payment of prior invoices. This would indicate

- A. A need for additional testing to determine related controls and the current exposure to duplicate payments made to suppliers.
- B. The possibility of unrecorded liabilities for the amount of the overpayments.
- C. Insufficient controls in the receiving area to ensure timely notice to the accounts payable area that goods have been received and inspected.
- D. The existence of a sophisticated accounts payable system that correlates overpayments to open invoices and therefore requires no further audit concern.

**[512] Gleim #: 7.2.26 -- Source: CIA 04 Model Exam I-80**

Which of the following procedures should be performed as part of a preliminary review in an audit of a bank's investing and lending activities?

- A. Review reports of audits performed by regulatory and outside auditors since the last internal audit engagement.
- B. Interview management to identify changes made in policies regarding investments or loans.
- C. Review minutes of the board of directors' meetings to identify changes in policies affecting investments and loans.
- D. All of the answers are correct.

**[513] Gleim #: 7.2.27 -- Source: CIA 04 Model Exam I-82**

An auditor, experienced in air-quality issues, discovered a significant lack of knowledge about legal requirements for controlling air emissions while interviewing the manager of the environmental, health, and safety (EHS) department. The auditor should

- A. Alter the scope of the engagement to focus on activities associated with air emissions.
- B. Share extensive personal knowledge with the EHS manager.
- C. Take note of the weakness and direct additional questions to determine the potential effect of the lack of knowledge.
- D. Report potential violations in this area to the appropriate regulatory agency.

**[514] Gleim #: 7.2.28 -- Source: CIA 04 Model Exam I-86**

If an auditor's preliminary evaluation of internal controls results in an observation that controls may be inadequate, the next step would be to

- A. Expand audit work prior to the preparation of an engagement final communication.
- B. Prepare a flowchart depicting the internal control system.
- C. Note an exception in the engagement final communication if losses have occurred.
- D. Implement the desired controls.

**[Fact Pattern #11]**

You are an internal auditing supervisor who is reviewing the working papers of a staff internal auditor's overall examination of the firm's sales function. The pages are not numbered or cross-referenced. Furthermore, the working papers were dropped and reassembled at random before they were brought to you. You decide to put the working papers in the proper order according to the Standards. The first stage of this activity is to identify each page as a part of (A) the preliminary survey, (B) the review of the adequacy of control processes, (C) the review for effectiveness of control processes, or (D) the review of results.

**[515] Gleim #: 7.2.29 -- Source: CIA 1190 I-22**

(Refers to Fact Pattern #11)

The second page the supervisor selects documents an interview with a salesperson discussing the overall sales cycle. This page belongs with which activity?

- A. Preliminary survey.
- B. Review for adequacy of control processes.
- C. Review for effectiveness of control processes.
- D. Review of results.

**[516] Gleim #: 7.2.30 -- Source: CIA 592 I-15**

As a means of controlling projects and avoiding time-budget overruns, decisions to revise time budgets for an engagement should normally be made

- A. Immediately after the survey.
- B. When a significant risk exposure has been substantiated.
- C. When inexperienced staff are assigned to an engagement.
- D. Immediately after expanding tests to establish reliability of observations.

**[517] Gleim #: 7.2.31 -- Source: CIA 590 I-2**

During an operational engagement, an internal auditor compares the inventory turnover rate of a subsidiary with established industry standards to

- A. Evaluate the accuracy of the subsidiary's internal financial reports.
- B. Test the subsidiary's controls designed to safeguard assets.
- C. Determine if the subsidiary is complying with organizational procedures regarding inventory levels.
- D. Assess the performance of the subsidiary and indicate where additional engagement work may be needed.

**[518] Gleim #: 7.2.32 -- Source: CIA 588 II-12**

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

- A. The qualifications of the internal auditing staff selected for the engagement.
- B. Risks associated with the activities to be reviewed.
- C. Recommendations of the engagement client's employees.
- D. The recipients of the final engagement communication.

**[519] Gleim #: 7.2.33 -- Source: CIA 589 I-2**

The preliminary survey phase of an engagement to evaluate recruiting activity shows that hotel and airfare expenses are approximately equal. Both hotel and airline arrangements are made by the recruiting group secretary. Based on this information, the scope of field work should include

- A. Considering competitive factors involved in the selection of hotel accommodations.
- B. Recommending that someone outside the recruiting group make hotel and airline reservations.
- C. Comparing the detail of hotel charges per candidate's expense reports to copies of hotel bills obtained directly from hotel sources.
- D. Obtaining assurance that candidates' legal rights are protected during the course of the interview experience.

**[520] Gleim #: 7.2.34 -- Source: CIA 597 II-6**

In advance of a preliminary survey, a chief audit executive sends a memorandum and questionnaire to the supervisors of the department to be evaluated. What is the most likely result of that procedure?

- A. It creates apprehension about the engagement.
- B. It involves the engagement client's supervisory personnel in the engagement.
- C. It is an uneconomical approach to obtaining information.
- D. It is only useful for engagements of distant locations.

**[521] Gleim #: 7.2.35 -- Source: CIA 1196 I-14**

Two major retailers, both publicly traded and operating in the same geographic area, have recently merged. They are approximately the same size and have internal audit activities. Organization A has little EDI experience. Organization B has invested heavily in information technology and has EDI connections with its major vendors.

The audit committee has asked the internal auditors from both organizations to analyze risk areas that should be addressed after the merger. The chief audit executive of Organization B has suggested that the two IAAs have a planning meeting to share work programs, scope of coverage, and copies of engagement communications that were delivered to their audit committees. Management has also suggested that the internal auditors review the compatibility of the two computer systems and control philosophy for individual store operations.

One internal auditor has suggested that each IAA conduct an engagement to evaluate consumer satisfaction that would include an analysis of: (1) customer complaints recorded by the customer service department during the last three months, (2) merchandise returned in the last three months, and (3) responses to a survey of customers who made purchases in the last three months. Which of the following statements regarding this approach is true?

- A. Although useful, such an engagement does not address risk factors and would therefore not be compatible with the audit committee directives.
- B. The survey would not consider customers who did not make purchases in the last three months.
- C. Parts 1 and 2 of the engagement plan would not be necessary, or cost effective, if a comprehensive customer survey were developed.
- D. None of the answers are correct.

**[522] Gleim #: 7.2.36 -- Source: CIA 1196 I-44**

An internal auditor is assigned to perform an engagement to evaluate the organization's insurance program, including the appropriateness of the approach to minimizing risks. The organization self-insures against large casualty losses and health benefits provided for all its employees. It is a large national entity with over 15,000 employees located in various parts of the country. It uses an outside claims processor to administer its health care program. The organization's medical costs have been rising by approximately 8% per year for the past five years, and management is concerned with controlling these costs. The internal auditor needs to determine the scope of the proposed evaluation of insurance coverage. Which of the following statements are true regarding the potential scope of the engagement?

- I. The internal audit activity should concentrate on processing that occurs within the organization and not on evaluating the correctness of transactions processing by the health care processor.
  - II. The internal auditor should interview management prior to beginning the engagement to understand (1) its concerns and (2) the underlying assumptions made and rationale used when making the self-insurance decision.
  - III. The internal auditor should consider engaging an actuarial consultant to better understand the risks involved in order to help determine the scope of the engagement.
- 
- A. I only.
  - B. II only.
  - C. I and II.
  - D. II and III.

**[523] Gleim #: 7.2.37 -- Source: CIA 592 II-12**

Which of the following is an appropriate statement of an engagement objective?

- A. To observe the physical inventory count.
- B. To determine whether inventory stocks are sufficient to meet projected sales.
- C. To search for the existence of obsolete inventory by computing inventory turnover by product line.
- D. To include information about stockouts in the final engagement communication.

**[524] Gleim #: 7.2.38 -- Source: CIA 593 I-17**

In an engagement to review a nonprofit organization's special revenue fund, the primary engagement objective is to determine whether the entity

- A. Complied with existing fund requirements and performed specified activities.
- B. Managed its resources economically and efficiently.
- C. Prepared its financial statements in accordance with accounting principles generally accepted in its country.
- D. Applies the funds in a way that would benefit the greatest number of people.

**[525] Gleim #: 7.2.39 -- Source: CIA 1189 I-13**

Which of the following is an appropriate objective in an engagement to review a personnel department? Determining whether

- A. Hourly employees are being paid only for hours actually worked as indicated by time cards or similar reports.
- B. An equitable training program exists that provides all employees with approximately the same amount of training each year.
- C. Reference checks of prospective employees are being performed.
- D. Recruitment is being delegated to the various departments that have personnel needs.

**[526] Gleim #: 7.2.40 -- Source: CIA 1188 II-21**

During a preliminary survey of the accounts receivable function, an internal auditor discovered a potentially major control deficiency while preparing a flowchart. What immediate action should the internal auditor take regarding the weakness?

- A. Perform sufficient testing to determine its cause and effect.
- B. Report it to the level of management responsible for corrective action.
- C. Schedule a separate engagement to evaluate that segment of the accounts receivable function.
- D. Highlight the weakness to ensure that procedures to test it are included in the engagement work program.

**[527] Gleim #: 7.2.41 -- Source: CIA 1188 I-12**

The internal auditor-in-charge has just been informed of the next engagement, and the engagement team has been assigned. Select the appropriate phase for finalizing the engagement budget.

- A. During formulation of the long-range plan.
- B. After the preliminary survey.
- C. During the initial planning meeting.
- D. After the completion of all field work.

**[Fact Pattern #12]**

An internal auditing team recently completed an assurance engagement to evaluate the organization's compliance with its lease-versus-purchase policy concerning automobiles. The final communication of engagement results noted that the basis for several decisions to lease rather than purchase automobiles had not been documented and was not reviewable. The report contained a recommendation that operating management ensure that such lease agreements not be executed without proper documentation of the basis for the decision to lease rather than buy. The internal auditors are about to perform follow-up work on this communication.

**[528] Gleim #: 7.2.42 -- Source: CIA 1190 I-22**

(Refers to Fact Pattern #12)

The second page the supervisor selects documents an interview with a salesperson discussing the overall sales cycle. This page belongs with which activity?

- A. Preliminary survey.
- B. Review for adequacy of control processes.
- C. Review for effectiveness of control processes.
- D. Review of results.

**[529] Gleim #: 7.2.43 -- Source: IIA, adapted**

Data-gathering activities such as interviewing operating personnel, identifying standards to be used to evaluate performance, and assessing risks inherent in a department's operations are typically performed in which phase of an audit engagement?

- A. Field work.
- B. Preliminary survey.
- C. Engagement program development.
- D. Examination and evaluation of evidence.

**[530] Gleim #: 7.3.44 -- Source: Publisher**

The scope of an internal auditing assurance engagement should include consideration of

- A. Only those systems and records under the control of the engagement client.
- B. Relevant physical properties under third-party control.
- C. Engagement observations, conclusions, and recommendations.
- D. Final engagement communications.

**[531] Gleim #: 7.3.45 -- Source: CIA 1194 I-12**

As a particular engagement is being planned in a high-risk area, the chief audit executive determines that the available staff does not have the requisite skills to perform the assignment. The best course of action consistent with engagement planning principles is to

- A. Not perform the engagement because the requisite skills are not available.
- B. Use the engagement as a training opportunity and let the internal auditors learn as the engagement is performed.
- C. Consider using external resources to supplement the needed knowledge, skills, and other competencies and complete the assignment.
- D. Perform the engagement but limit the scope in light of the skill deficiency.

**[532] Gleim #: 7.3.46 -- Source: CIA 594 III-4**

The chief audit executive of a multinational organization must form an engagement team to examine a newly acquired subsidiary in another country. Consideration should be given to which of the following factors?

- I. Local customs
- II. Language skills of the internal auditor
- III. Experience of the internal auditor
- IV. Monetary exchange rate

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

**[533] Gleim #: 7.3.47 -- Source: CIA 1190 I-30**

In the preparation of an engagement work program, which of the following items is not essential?

- A. The performance of a preliminary survey.
- B. A review of material from prior engagement communications.
- C. The preparation of a budget identifying the costs of resources needed.
- D. A review of criteria established by management to determine whether operating goals and objectives have been accomplished.

**[534] Gleim #: 7.4.48 -- Source: CIA 1194 I-13**

Writing an engagement work program occurs at which stage of the engagement?

- A. During the planning stage.
- B. Subsequent to evaluating risk management and control systems.
- C. As the engagement is performed.
- D. At the end of each engagement when the standard work program should be revised for the next engagement to ensure coverage of noted problem areas.

**[535] Gleim #: 7.4.49 -- Source: CIA 1192 I-13**

A work program for a comprehensive assurance engagement to evaluate a purchasing function should include

- A. Procedures arranged by relative priority based upon perceived risk.
- B. A statement of the engagement objectives for the operation under review with agreement by the engagement client.
- C. Procedures to accomplish engagement objectives.
- D. A focus on risks affecting the financial statements as opposed to controls.

**[536] Gleim #: 7.4.50 -- Source: CIA 1188 I-13**

Which of the following is not ordinarily considered an essential criterion for developing engagement work programs?

- A. Description of the objectives of the engagement client operation to be evaluated.
- B. Specificity as to the controls to be tested.
- C. Specificity as to procedures to be followed.
- D. Specificity as to the methodology to be used for the engagement procedures.

**[537] Gleim #: 7.4.51 -- Source: Publisher**

The engagement work program should be approved

- A. No later than the conclusion of engagement work.
- B. By the engagement client or designee.
- C. Orally in some circumstances.
- D. In writing by the board.

**[538] Gleim #: 7.4.52 -- Source: CIA 592 I-13**

Which of the following is a step in an engagement work program?

- A. The engagement will commence in 6 weeks and include tests of compliance with laws, regulations, and contracts.
- B. A determination is made concerning whether the manufacturing operations are effective and efficient.
- C. Internal auditors may not reveal engagement observations to non-supervisory, operational personnel during the course of this engagement.
- D. The methods used to identify defective units produced are observed.

**[539] Gleim #: 7.4.53 -- Source: CIA 588 I-28**

The internal audit activity is planning a 3-year effort to perform engagements at all branches of a large international car rental agency. Management is especially concerned with standardized operation of the accounting, car rental, and inventory functions. What type of work program is most appropriate for this project?

- A. A pro forma program developed and tested by the internal audit activity.
- B. Individual programs developed by the internal auditor-in-charge after a preliminary survey of each branch.
- C. A checklist of branch standard operating procedures.
- D. An industry-developed engagement guide.

**[540] Gleim #: 7.4.54 -- Source: CIA 592 I-28**

A standard engagement work program is not appropriate for which situation?

- A. A stable operating environment undergoing only minimal changes.
- B. A complex or changing operating environment.
- C. Multiple locations with similar operations.
- D. Subsequent engagements to provide assurance about inventory performed at same location.

**[541] Gleim #: 7.4.55 -- Source: CIA 590 II-2**

What action should an internal auditor take upon discovering that an area was omitted from the engagement work program?

- A. Document the problem in the engagement working papers and take no further action until instructed to do so.
- B. Perform the additional work needed without regard to the added time required to complete the engagement.
- C. Continue the engagement as planned and include the unforeseen problem in a subsequent engagement.
- D. Evaluate whether completion of the engagement as planned will be adequate.

**[542] Gleim #: 7.4.56 -- Source: CIA 1195 I-56**

An internal auditor has some suspicion of, but no information about, potential misstatement of financial statements. The internal auditor would fail to exercise due professional care by

- A. Identifying potential ways in which a misstatement could occur and ranking the items for investigation.
- B. Informing the engagement manager of the suspicions and asking for advice on how to proceed.
- C. Not testing for possible misstatement because the engagement work program had already been approved by engagement management.
- D. Expanding the engagement work program, without the engagement client's approval, to address the highest ranked ways in which a misstatement may have occurred.

**[543] Gleim #: 7.4.57 -- Source: CIA 1190 I-12**

Fieldwork is a systematic process of objectively gathering information about an entity's operations, evaluating it, and determining whether those operations meet acceptable standards. Which of the following is not part of the work performed during fieldwork?

- A. Expanding or altering engagement procedures if circumstances warrant.
- B. Applying the engagement work program to accomplish engagement objectives.
- C. Creating working papers that document the engagement.
- D. Developing a written engagement work program.

**[544] Gleim #: 7.4.58 -- Source: CIA 1187 II-1**

The action taken by an internal auditor who discovers a significant area not included in the engagement work program should be to

- A. Evaluate whether completion of the engagement as planned will be adequate.
- B. Perform the additional work deemed necessary without regard to the additional time needed to complete the engagement.
- C. Continue the engagement as planned and include the unforeseen area in a subsequent engagement.
- D. Document the observation in the working papers and take no further action until instructed to do so.

**[545] Gleim #: 7.5.59 -- Source: CIA 1184 I-23**

The purpose of including a time budget in an engagement work program is to

- A. Provide an objective means of evaluating the internal auditor's competence.
- B. Assure timely completion of the engagement.
- C. Provide a means of controlling and evaluating the progress of the engagement.
- D. Restrict the scope of the engagement.

**[546] Gleim #: 7.5.60 -- Source: CIA 588 II-14**

Which of the following statements is true with respect to a time budget for an internal audit engagement?

- A. Requests for time budget adjustments should be approved by the audit committee.
- B. Time budgets should be strictly adhered to, regardless of circumstances.
- C. Time budgets should be used for financial audits, but not for operational audits.
- D. Time budgets should normally be prepared in terms of hours or days.

**[547] Gleim #: 7.5.61 -- Source: CIA 592 I-26**

The best control over the work on which internal auditors' opinions are based is

- A. Supervisory review of all engagement work.
- B. Preparation of time budgets for internal auditing activities.
- C. Preparation of engagement working papers.
- D. Staffing of internal audit activities.

**[548] Gleim #: 7.5.62 -- Source: CIA 594 III-92**

Which of the following activities does not constitute engagement supervision?

- A. Preparing a preliminary engagement work program.
- B. Providing appropriate instructions to the internal auditors.
- C. Reviewing engagement working papers.
- D. Ensuring that engagement communications meet appropriate criteria.

**[549] Gleim #: 7.5.63 -- Source: CIA 591 I-14**

Which of the following best describes what should determine the extent of supervision required for a particular internal auditing engagement?

- A. Whether the engagement involves possible fraud on the part of management.
- B. Whether the engagement involves possible violations of laws or governmental regulations.
- C. The proficiency of the internal auditors and the complexity of the engagement.
- D. The internal audit activity's prior experience in dealing with the particular engagement client.



**[550] Gleim #: 7.5.64 -- Source: CIA 1195 I-48**

A new staff internal auditor's first assignment is to review the cash management operations of the organization. The staff internal auditor has no background in cash management. Under which of the following conditions would this arrangement be appropriate?

- I. The senior internal auditor is skilled in the area and closely supervises the staff internal auditor.
  - II. The staff internal auditor performs the work and prepares an engagement communication that is reviewed in detail by the chief audit executive.
- A. I only.
  - B. II only.
  - C. Both I and II.
  - D. Neither I nor II.

**[551] Gleim #: 7.5.65 -- Source: CIA 591 II-15**

Which of the following best describes engagement supervision?

- A. The manager of each engagement has the ultimate responsibility for supervision.
- B. Supervision is primarily exercised at the final review stage of an engagement to ensure the accuracy of the engagement communications.
- C. Supervision is most important in the planning phase of the engagement to ensure appropriate coverage.
- D. Supervision is a continuing process beginning with planning and ending with the conclusion of the engagement.

**[552] Gleim #: 7.5.66 -- Source: CIA 1185 I-4**

When engagements are performed for the internal audit activity by nonstaff members, the chief audit executive is responsible for

- A. Ensuring that the engagement communications are accurate, objective, clear, concise, constructive, and timely.
- B. Reviewing the engagement work programs for approval.
- C. Providing appropriate supervision from the beginning to the conclusion of the engagement.
- D. None of the work performed by those outside the internal audit activity.

**[553] Gleim #: 7.5.67 -- Source: CIA 1192 I-14**

Supervision of an internal audit engagement should include

- A. Determining that engagement working papers adequately support the engagement observations.
- B. Assigning staff members to the particular engagement.
- C. Determining the scope of the engagement.
- D. Appraising each internal auditor's performance on at least an annual basis.

**[554] Gleim #: 7.5.68 -- Source: CIA 587 II-17**

The chief audit executive is responsible for engagement supervision. The most important form of supervision during the field work phase of engagements involves

- A. Seeing that the approved engagement work program is carried out unless changes are both justified and authorized.
- B. Providing suitable instructions to subordinates at the outset of the engagement and approving the engagement work program.
- C. Appraising each internal auditor's performance at least annually.
- D. Making sure that communications are accurate, objective, clear, concise, constructive, and timely.

**[555] Gleim #: 7.5.69 -- Source: CIA 592 I-16**

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

- A. Staff internal auditor.
- B. Audit committee.
- C. Engagement supervisor.
- D. Chief audit executive.

**[556] Gleim #: 7.5.70 -- Source: CIA 1190 II-12**

To determine the extent of testing to be performed during field work, preparing the engagement work program should be the next step after completing the

- A. Preliminary survey.
- B. Survey of company policies.
- C. Assignment of audit staff.
- D. Time budgets for specific audit tasks.

**[557] Gleim #: 7.5.71 -- Source: CIA 594 I-7**

Many administrative tasks are performed during the course of an internal auditing engagement. Various tasks are shown below and given a number. In the answers below, the numbered tasks are grouped as being done primarily by a staff internal auditor, internal audit manager, or chief audit executive. Only one of the following groupings is correct. Select the answer in which listed tasks are most appropriately grouped according to position.

1. The engagement client is selected and the scope of the engagement assigned.
2. An initial interview is held with the engagement client explaining the scope of the engagement.
3. Working papers are prepared showing engagement work performed.
4. Engagement work is supervised during the field work.
5. Working papers are reviewed.
6. Inquiry is made of engagement client management to explain unusual observations.
7. Working papers are finalized and a preliminary communication is prepared.
8. Review draft engagement observations, conclusions, and recommendations with management.
9. After the engagement communication has been discussed with engagement client management, the communication and working papers receive a final review before the engagement communication is signed, published, and distributed.

Not all tasks are listed in each answer and some of the numbered tasks could be done by more than one of the three internal auditing personnel.

	Staff Internal Auditor	Internal Audit Manager	Chief Audit Executive
A.	3, 6, 7	2, 5, 8	1, 8, 9
B.	2, 4, 7	3, 4, 8	1, 6, 9
C.	3, 7, 9	2, 4, 6	2, 3, 8
D.	2, 7, 9	4, 6, 8	1, 5, 6

**[558] Gleim #: 7.5.72 -- Source: CIA 595 II-20**

Which of the following items does not constitute evidence of proper supervision of an internal auditing engagement?

- A. An internal audit manager approves the engagement work program and gives instructions to subordinates at the outset of the engagement, and is available for consultation, but does not actively participate in the performance of procedures.
- B. An internal audit manager is not intimately involved in an engagement, but does review the results to ensure that all engagement objectives are being met.
- C. A senior internal auditor continuously deviates from the approved engagement work program, but consistently completes the engagement within the approved time budget. The time budget is approved by the internal audit manager, and compliance with the time budget is reviewed by the internal audit manager.
- D. The internal audit manager carefully reviews all analytical procedures performed by internal audit seniors during the preliminary planning for an engagement to determine if the conclusions are justified.

**[559] Gleim #: 7.5.73 -- Source: CIA 588 II-7**

When engagements are performed for the internal audit activity by nonstaff members, the chief audit executive is responsible for

- A. Ensuring that the engagement communications are objective, clear, and timely.
- B. Reviewing the engagement work programs for approval.
- C. Providing appropriate supervision from the beginning to the conclusion of the engagement.
- D. None of the engagement work performed by those outside the department.

**[560] Gleim #: 7.5.74 -- Source: CIA 588 I-15**

Of the many tools available to assist an internal auditing supervisor, which of the following is of least assistance in the supervision of a specific engagement?

- A. Assignment board.
- B. Time budget.
- C. Weekly status report.
- D. Time report.

**[561] Gleim #: 8.1.1 -- Source: CIA 1192 I-10**

The chief audit executive should establish goals as part of the planning process for the internal audit activity. What are the traits of internal auditing goals?

- A. Measurable and attainable.
- B. Budgeted and approved.
- C. Planned and attainable.
- D. Requested and approved.

**[562] Gleim #: 8.1.2 -- Source: CIA 1191 I-7**

Which of the following factors serves as a direct input to the internal audit activity's financial budget?

- A. Engagement work schedules.
- B. Activity reports.
- C. Past effectiveness of the internal audit activity in identifying cost savings.
- D. Internal audit activity's charter.

**[563] Gleim #: 8.1.3 -- Source: CIA 1193 II-6**

At a meeting with engagement managers, the chief audit executive is allocating the engagement work schedule for next year's plan. Which of the following methods will ensure that each manager receives an appropriate share of both the work schedule and internal audit activity resources?

- A. Work is assigned to each manager based on risk and skill analysis.
- B. Each of the managers selects the individual assignments desired, based on preferences for the area and the management personnel involved.
- C. Each manager chooses assignment preferences based on the total staff hours that are currently available to each manager.
- D. The full list of scheduled engagements is published for the staff, and work assignments are made based on career interests and travel requirements.

**[564] Gleim #: 8.1.4 -- Source: CIA 592 II-11**

The chief audit executive is preparing the engagement work schedule for the next budget year and has limited resources. In deciding whether to schedule the purchasing or the personnel department for an engagement, which of the following is the least important factor?

- A. Major changes in operations have occurred in one of the departments.
- B. The internal audit staff has recently added an individual with expertise in one of the areas.
- C. More opportunities to achieve operating benefits are available in one of the departments than in the other.
- D. Updated assessed risk is significantly greater in one department than the other.

**[565] Gleim #: 8.1.5 -- Source: CIA 594 III-3**

Which of the following factors is not included in determining the engagement work schedule?

- A. Engagement work programs.
- B. The effectiveness of risk management and control processes.
- C. Workload requirements.
- D. Issues relating to organizational governance.

**[566] Gleim #: 8.1.6 -- Source: CIA 1193 I-6**

During discussions with senior management, the chief audit executive identified several strategic business issues to consider in preparing the annual engagement work schedule. Which of the following does not represent a strategic issue for this purpose?

- A. A monthly budgeting process will be implemented.
- B. An international marketing campaign will be started to develop product recognition and also to leverage the new organization-based advertising department.
- C. Joint venture candidates will be sought to provide manufacturing and sourcing capabilities in European and Asian markets.
- D. A human resources database will be established to ensure consistent administration of policies and to improve data retention.

**[567] Gleim #: 8.1.7 -- Source: CIA 591 I-11**

Which of the following is the best source of a chief audit executive's information for planning staffing requirements?

- A. Discussions of internal audit needs with senior management and the board.
- B. Review of internal audit staff education and training records.
- C. Review internal audit staff size and composition of similarly sized organizations in the same industry.
- D. Interviews with existing internal audit staff.

**[568] Gleim #: 8.1.8 -- Source: CIA 592 I-4**

Which internal audit planning tool is general in nature and is used to ensure adequate engagement coverage over time?

- A. The audit plan.
- B. The engagement work program.
- C. The internal audit activity's budget.
- D. The internal audit activity's charter.

**[569] Gleim #: 8.1.9 -- Source: CIA 591 II-11**

A chief audit executive may use risk analysis in preparing work schedules. Which of the following is not considered in performing a risk analysis?

- A. Issues relating to organizational governance.
- B. Skills available on the internal audit staff.
- C. Results of prior engagements.
- D. Major operating changes.

**[570] Gleim #: 8.1.10 -- Source: CIA 594 I-68**

A manager responsible for the supervision and review of other internal auditors needs the necessary skills, knowledge, and other competencies. Which of the following does not describe a skill, knowledge, or other competency necessary to supervise a particular engagement?

- A. The ability to review and analyze an engagement work program to determine whether the proposed engagement procedures will result in information relevant to the engagement's objectives.
- B. Assuring that an engagement communication is supported and accurate relative to the information documented in the engagement working papers.
- C. Using risk assessment and other judgmental processes to develop an engagement work schedule for the internal audit activity and present the schedule to the board.
- D. Determining that staff auditors have completed the engagement procedures and that engagement objectives have been met.

**[571] Gleim #: 8.1.11 -- Source: CIA 1195 I-12**

The chief audit executive for an organization has just completed a risk assessment process, identified the areas with the highest risks, and assigned an engagement priority to each. Which of the following conclusions most logically follow(s) from such a risk assessment?

- I. Items should be quantified as to risk in the rank order of quantifiable monetary exposure to the organization.
  - II. The risk priorities should be in order of major control deficiencies.
  - III. The risk assessment process, though quantified, is the result of professional judgments about both exposures and probability of occurrences.
- 
- A. I only.
  - B. III only.
  - C. II and III only.
  - D. I, II, and III.

**[572] Gleim #: 8.1.12 -- Source: CIA R98 I-2**

Which of the following factors is considered the least important in deciding whether existing internal audit resources should be moved from an ongoing compliance engagement to a divisional-level engagement requested by management?

- A. A financial audit of the division performed by the external auditor a year ago.
- B. The potential for fraud associated with the ongoing engagement.
- C. An increase in the level of expenditures experienced by the division for the past year.
- D. The potential for significant regulatory fines associated with the ongoing engagement.

**[573] Gleim #: 8.1.13 -- Source: CIA R98 I-1**

Which of the following comments is(are) true regarding the assessment of risk associated with two projects that are competing for limited internal audit resources?

- I. Activities that are requested by the board always should be considered higher risk than those requested by management.
  - II. Activities with higher financial budgets always should be considered higher risk than those with lower financial budgets.
  - III. Risk always should be measured by the potential monetary or other adverse exposure to the organization.
- 
- A. I only.
  - B. II only.
  - C. III only.
  - D. I and III.

**[574] Gleim #: 8.1.14 -- Source: CIA 1195 I-13**

Which of the following represent(s) appropriate internal audit action in response to the risk assessment process?

- I. The low-risk areas may be delegated to the external auditor, but the high-risk areas should be performed by the internal audit activity.
  - II. The high-risk areas should be integrated into an engagement work schedule along with the high-priority requests of senior management and the audit committee.
  - III. The risk analysis should be used in determining an annual engagement work schedule; therefore, the risk analysis should be performed only on an annual basis.
- A. I only.  
B. II only.  
C. III only.  
D. I and III only.

**[575] Gleim #: 8.1.15 -- Source: CIA 1195 I-15**

The internal auditor is considering making a risk analysis as a basis for determining the areas of the organization where engagements should be performed. Which one of the following statements is true regarding risk analysis?

- A. The extent to which management judgments are required in an area could serve as a risk factor in assisting the internal auditor in making a comparative risk analysis.
- B. The highest risk assessment should always be assigned to the area with the largest potential loss.
- C. The highest risk assessment should always be assigned to the area with highest probability of occurrence.
- D. Risk analysis must be reduced to quantitative terms in order to provide meaningful comparisons across an organization.

**[576] Gleim #: 8.1.16 -- Source: CIA 1195 I-17**

The chief audit executive set up a computerized spreadsheet to facilitate the risk assessment process involving a number of different divisions in the organization. The spreadsheet included the following factors:

- Pressure on divisional management to meet profit goals
- Complexity of operations
- Competence of divisional personnel
- The monetary amount of subjectively influenced accounts in the division, such as accounts in which management's judgment can affect the expense, e.g., postretirement benefits

The CAE used a group meeting of internal audit managers to reach a consensus on the competence of divisional personnel. Other factors were assessed as high, medium, or low by either the CAE or an internal audit manager who had performed an engagement at the division. The CAE assigned a weight ranging from 0.5 to 1.0 to each factor and then computed a composite risk score. Which statement is true?

- A. The risk analysis is not appropriate because it mixes both quantitative and qualitative factors, thereby making expected values calculation impossible.
- B. Assessing factors at discrete levels such as high, medium, and low is inappropriate for the risk assessment process because the ratings are not quantifiable.
- C. The weighting is subjective and should have been determined through a process such as multiple-regression analysis.
- D. Using a subjective group consensus to assess personnel competence is appropriate.

**[577] Gleim #: 8.1.17 -- Source: CIA 04 Model Exam I-22**

A chief audit executive (CAE) uses a risk assessment model to establish the annual audit plan. Which of the following would be an appropriate action by the CAE?

- I. Maintain ongoing dialogue with management and the audit committee
- II. Ensure that the schedule of audit priorities remains unchanged
- III. Employ only quantitative methods to determine risk weightings
- IV. Revise the risk assessment and audit priorities as warranted

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

**[578] Gleim #: 8.1.18 -- Source: CIA 04 Model Exam I-23**

When a risk assessment process has been used to construct an audit engagement schedule, which of the following should receive attention first?

- A. The external auditors have requested assistance for their upcoming annual audit.
- B. A new accounts payable system is currently undergoing testing by the information technology department.
- C. Management has requested an investigation of possible lapping in receivables.
- D. The existing accounts payable system has not been audited over the past year.

**[579] Gleim #: 8.1.19 -- Source: CIA 04 Model Exam I-24**

A chief audit executive is reviewing the following enterprise-wide risk map:

<b>I M P A C T</b>	<b>LIKELIHOOD</b>		
	<b>Remote</b>	<b>Possible</b>	<b>Likely</b>
	<b>Critical</b>	Risk A	Risk B
	<b>Major</b>		Risk D
<b>Minor</b>		Risk C	

Which of the following is the correct prioritization of risks, considering limited resources in the internal audit activity?

- A. Risk B, Risk C, Risk A, Risk D.
- B. Risk A, Risk B, Risk C, Risk D.
- C. Risk D, Risk B, Risk C, Risk A.
- D. Risk B, Risk C, Risk D, Risk A.

**[580] Gleim #: 8.1.20 -- Source: CIA 04 Model Exam I-25**

Which of the following represents the best risk assessment technique?

- A. Assessment of the risk levels for future events based on the extent of uncertainty of those events and their impact on achievement of long-term organizational goals.
- B. Assessment of inherent and control risks and their impact on the extent of financial misstatements.
- C. Assessment of the risk levels of current and future events, their effect on achievement of the organization's objectives, and their underlying causes.
- D. Assessment of the risk levels of current and future events, their impact on the organization's mission, and the potential for elimination of existing or possible risk factors.

**[Fact Pattern #13]**

During the planning phase, a chief audit executive (CAE) is evaluating four audit engagements based on the following factors: the engagement's ability to reduce risk to the organization, the engagement's ability to save the organization money, and the extent of change in the area since the last engagement. The CAE has scored the engagements for each factor from low to high, assigned points, and calculated an overall ranking. The results are shown below with the points in parentheses:

<u>Audit</u>	<u>Risk</u>	<u>Cost</u>	<u>Changes</u>
	<u>Reduction</u>	<u>Savings</u>	
1	High (3)	Medium (2)	Low (1)
2	High (3)	Low (1)	High (3)
3	Low (1)	High (3)	Medium (2)
4	Medium (2)	Medium (2)	High (3)

**[581] Gleim #: 8.1.21 -- Source: CIA 04 Model Exam I-29**

(Refers to Fact Pattern #13)

Which audit engagements should the CAE pursue if all factors are weighed equally?

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

**[582] Gleim #: 8.1.22 -- Source: CIA 04 Model Exam I-30**

(Refers to Fact Pattern #13)

If the organization has asked the CAE to consider the cost savings factor to be twice as important as any other factor, which engagements should the CAE pursue?

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

**[583] Gleim #: 8.1.23 -- Source: CIA 04 Model Exam I-26**

Which of the following is the best reason for the chief audit executive to consider the strategic plan in developing the annual audit plan?

- A. To ensure that the internal audit plan supports the overall business objectives.
- B. To ensure that the internal audit plan will be approved by senior management.
- C. To make recommendations to improve the strategic plan.
- D. To emphasize the importance of the internal audit function.

**[584] Gleim #: 8.1.24 -- Source: CIA 04 Model Exam I-27**

In assessing organizational risk in a manufacturing environment, which of the following would have the most long-range impact on the organization?

- A. Production scheduling.
- B. Inventory policy.
- C. Product quality.
- D. Advertising budget.

**[585] Gleim #: 8.1.25 -- Source: CIA 04 Model Exam I-34**

A chief audit executive would most likely use risk assessment for audit planning because it provides



- A. A systematic process for assessing and integrating professional judgment about probable adverse conditions.
- B. A listing of potentially adverse effects on the organization.
- C. A list of auditable activities in the organization.
- D. The probability that an event or action may adversely affect the organization.

**[Fact Pattern #14]**

The internal auditing process is one of critical thinking, analysis, and careful evaluation. All mechanical procedures are integrated into a larger context of thoughtful inquiry. All engagements include a description and analysis of internal controls. Engagement clients are selected in a number of ways, with risk being the primary basis for selection. The departments being considered for possible review in the coming year and attributes of those departments are as follows:

<u>Department</u>	<u>Assets</u>	<u>Annual Costs</u>	<u>Probability of Loss</u>
Production A	\$50,000	\$700,000	10%
Production B	\$5,000,000	\$10,000,000	1%
Production C	\$1,000,000	\$1,000,000	1%
Purchasing	\$50,000	\$150,000	10%
Marketing	\$50,000	\$500,000	10%
Shipping	\$60,000	\$100,000	50%
Security	\$10,000	\$100,000	90%
Travel	\$6,000	\$30,000	50%

All of these departments, except two, are on the potential list of engagement clients because of a risk analysis performed by the chief audit executive. Production department A is on the list because the president thinks too many bottlenecks occur in that department. The marketing department is on the list because the chief of security received an anonymous phone call accusing a marketing manager of accepting substantial financial kickbacks from a media outlet. Internal controls seem adequate in all departments, with the possible exception of marketing.

**[586] Gleim #: 8.1.26 -- Source: CIA 1195 III-3**

(Refers to Fact Pattern #14)

Assuming that total available resources remain the same, what activities should the internal audit activity perform to best serve the organization?

- A. Decrease engagement time in systems development.
- B. Increase engagement time in service branches.
- C. Increase engagement time in functions being centralized.
- D. Continue the allocation of engagement time as before.

**[587] Gleim #: 8.1.27 -- Source: CIA 1194 I-1**

(Refers to Fact Pattern #14)

Which department most likely needs a pure operational (nonfinancial) engagement?

- A. Production A.
- B. Production C.
- C. Purchasing.
- D. Marketing.

**[588] Gleim #: 8.1.28 -- Source: CIA 1194 I-2**

(Refers to Fact Pattern #13)

What is the chief audit executive's most logical definition of risk of loss to be used in selecting engagement clients?

- A. Amount of risk exposure times the probability of loss.
- B. Amount of annual costs in a department.
- C. Probability of loss.
- D. Amount of assets in a department.

**[589] Gleim #: 8.1.29 -- Source: CIA 594 I-56**

Which of the following statements is false regarding risk assessment as the term is used in internal auditing?

- A. Risk assessment is a judgmental process of assigning monetary amounts to the perceived level of risk found in an activity being evaluated. These amounts allow a chief audit executive to select the engagement clients most likely to result in identifiable savings.
- B. The chief audit executive should incorporate information from a variety of sources into the risk assessment process, including discussions with the board, management, external auditors, review of regulations, and analysis of financial/operating data.
- C. Risk assessment is a systematic process of assessing and integrating professional judgments about events that could affect the achievement of organizational objectives. It provides a means of organizing an engagement work schedule.
- D. As a result of an engagement or preliminary survey, the chief audit executive may revise the level of assessed risk of an engagement client at any time, making appropriate adjustments to the work schedule.

**[590] Gleim #: 8.1.30 -- Source: CIA 1191 II-6**

Risk modeling or risk analysis is often used in conjunction with development of long-range engagement work schedules. The key input in the evaluation of risk is

- A. Previous engagement results.
- B. Management concerns and preferences.
- C. Specific requirements of professional standards.
- D. Judgment of the internal auditors.

**[591] Gleim #: 8.1.31 -- Source: CIA 1194 I-25**

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions or events. Which of the following statements reflects the appropriate action for the chief audit executive to take?

- A. The CAE should generally assign engagement priorities to activities with higher risks.
- B. The CAE should restrict the number of sources of information used in the risk assessment process.
- C. Work schedule priorities should be established to lead the CAE in the risk assessment process.
- D. The risk assessment process should be conducted at least every three to five years.

**[592] Gleim #: 8.1.32 -- Source: CIA 1192 II-11**

The chief audit executive for a retail merchandise sales organization is considering engagement assignments for inclusion in the work schedule for the upcoming year. The following areas have not been evaluated recently and there are no known reasons that they should be given immediate attention. If resources are scarce, which project should be given priority?

- A. Corporate code of ethics and conflict of interest policy.
- B. Cash management and credit policy.
- C. Employee time reporting system.
- D. Budget preparation and forecasts.

**[593] Gleim #: 8.1.33 -- Source: CIA 1188 I-11**

The chief audit executive of a manufacturer is updating the long-range engagement work schedule. There are several possible assignments that can fill a given time spot. Information on potential dollar exposure and key internal controls has been gathered. Based on perceived risk, select the assignment of greatest merit.

- A. Precious metals inventory -- carrying amount, \$1,000,000; separately stored, but access not restricted.
- B. Branch office petty cash -- ledger amount, \$50,000; ten branch offices, equal amounts; replenishment of accounts requires three separate approvals.
- C. Sales force travel expenses -- budget, \$1,000,000; 50 sales people; all expenditures over \$25 must be receipted.
- D. Expendable tools inventory -- carrying amount, \$500,000; issued by tool crib attendant upon receipt of authorization form.

**[594] Gleim #: 8.1.34 -- Source: CIA 594 II-17**

Feedback allows the chief audit executive to monitor the internal audit activity's efficiency and effectiveness. Actions resulting from feedback include all of the following except

- A. Revising risk assessments made during the planning phase of an engagement.
- B. Revising the actual engagement hours to reflect only budgeted hours.
- C. Identifying areas for future engagements.
- D. Performing periodic follow-up procedures for outstanding recommendations.

**[595] Gleim #: 8.1.35 -- Source: CIA 1192 I-5**

The chief audit executive of an organization has developed a plan that includes a detailed schedule of engagements to be performed during the coming year, an estimate of the time required for each engagement, and the approximate starting date of each engagement. The scheduling of specific engagements was based upon the time elapsed since the last engagement in each area. The plan is inadequate because it fails to

- A. Cite authoritative support for such a plan.
- B. Consider factors such as risk and effectiveness of risk management processes.
- C. State whether all internal audit activity resources had been committed to the plan.
- D. Seek senior management approval of the plan.

**[596] Gleim #: 8.1.36 -- Source: CIA 592 I-7**

Which of the following is least likely to be included in the engagement work schedule of the internal audit activity?

- A. To be consistent with its charter.
- B. To be capable of being accomplished.
- C. To include a list of activities to be performed.
- D. To include the basics of the engagement work program.

**[597] Gleim #: 8.1.37 -- Source: CIA R98 I-73**

The internal audit activity of a large organization has established its operating plan and budget for the coming year. The operating plan is restricted to the following categories: a prioritized listing of all engagements, staffing, a detailed expense budget, and the commencement date of each engagement. Which of the following best describes the major deficiency of this operating plan?

- A. Requests by management for special projects are not considered.
- B. Opportunities to achieve operating benefits are ignored.
- C. Measurability criteria and targeted dates of completion are not provided.
- D. Knowledge, skills, and other competencies required to perform work are ignored.

**[598] Gleim #: 8.1.38 -- Source: CIA 588 II-11**

Which of the following is a valid reason for an internal auditing engagement involving a payroll department to receive priority over a purchasing department engagement?

- A. The director of the payroll department requested that the payroll department engagement be performed first.
- B. The purchasing department engagement will require more time to perform.
- C. The payroll department's relative risk and exposure are greater.
- D. The purchasing department recently restructured its major operations.

**[599] Gleim #: 8.1.39 -- Source: CIA 588 II-20**

An engagement work schedule for the internal audit activity is an essential part of

- A. Scheduling support for the external audit.
- B. Establishing standards for employee performance.
- C. Providing senior management with information about the quality of the internal audit activity's performance.
- D. Planning for the internal audit activity.

**[600] Gleim #: 8.1.40 -- Source: CIA 1195 I-42**

Management has just implemented a policy that every department must downsize by immediately cutting 10% of each department's staff and budget. The chief audit executive has reacted to the organization's recent plans for "downsizing" (reducing the size of staff across the board) by notifying the internal audit managers that the time allocated for all jobs must be cut by 10%. Which of the following statements regarding the CAE's action and potential internal audit manager's action is true?

- A. The CAE's action should result in approximately the same amount of risk coverage as the previous engagement work schedule but reduced by 10%.
- B. Individual internal audit managers can attain 90% of the previously defined engagement coverage by uniformly cutting engagement procedures by 10%.
- C. The CAE should have re-prioritized risks and eliminated specific engagements rather than cutting 10% across the board.
- D. All of the answers are correct.

**[601] Gleim #: 8.1.41 -- Source: CIA 1190 II-2**

According to the Standards, the internal audit activity's goals should specify

- A. Engagement work schedules and activities to be reviewed.
- B. Policies and procedures to guide the internal audit staff.
- C. Measurement criteria and target dates for completion.
- D. Staffing plans and financial budgets.

**[602] Gleim #: 8.1.42 -- Source: CIA 596 III-21**

Which of the following abilities is not important in marketing internal auditing to management?

- A. Explaining the current use of internal auditing software to executive management.
- B. Preparing engagement communications competently and professionally.
- C. Knowing what executive management wants the internal auditors to do.
- D. Knowing whom the internal auditors serve as customers.

**[603] Gleim #: 8.1.43 -- Source: CIA 1187 I-6**

Which of the following is the best means of aiding an internal audit activity in determining whether its goals are being met?

- A. Having the board periodically review the quality of the internal audit activity's work.
- B. Developing measurement criteria to accompany its goals.
- C. Scheduling an external assessment every 3 years.
- D. Having external auditors review and evaluate the work of the internal audit activity.

**[604] Gleim #: 8.2.44 -- Source: CIA 595 III-33**

Recent criticism of an internal audit activity suggested that engagement coverage was not providing adequate feedback to senior management on the processes used in the organization's key lines of business. The problem was further defined as lack of feedback on the recent implementation of automated support systems. Which two functions does the chief audit executive need to improve?

- A. Staffing and communicating.
- B. Staffing and decision making.
- C. Planning and organizing.
- D. Planning and communicating.

**[605] Gleim #: 8.2.45 -- Source: CIA 1187 I-4**

Which of the following is an appropriate responsibility of an audit committee?

- A. Performing a review of the procurement function of the organization.
- B. Reviewing the internal audit activity's engagement work schedule submitted by the chief audit executive.
- C. Reviewing the engagement records of the public accounting firm to determine the firm's competence.
- D. Recommending the assignment of specific internal auditing staff members for specific engagements.

**[606] Gleim #: 8.2.46 -- Source: CIA 589 I-6**

As the chief audit executive, you have determined that the acquisition of some expensive, state-of-the-art software for paperless working paper files will be useful. Identify the preferred method for presenting your request to senior management.

- A. The effect of not obtaining the software.
- B. Statement of need.
- C. Comparison with other internal audit activities.
- D. Evaluation of the software's technical specifications.

**[607] Gleim #: 8.3.47 -- Source: CIA 592 II-7**

A chief audit executive's activity report should

- A. List the material engagement observations of major engagements.
- B. List uncorrected reported conditions.
- C. Report the weekly activities of the individual internal auditors.
- D. Compare engagements completed with engagements planned.

**[608] Gleim #: 8.3.48 -- Source: CIA 595 III-23**

The chief audit executive routinely presents an activity report to the board as part of the board meeting agenda each quarter. Senior management has asked to review this presentation before each board meeting so that any issues or questions can be discussed beforehand. The CAE should

- A. Provide the activity report to senior management as requested and discuss any issues that may require action to be taken.
- B. Withhold disclosure of the activity report to senior management because such matters are the sole province of the board.
- C. Disclose to the board only those matters in the activity report that pertain to expenditures and financial budgets of the internal audit activity.
- D. Provide information to senior management that pertains only to completed engagements and observations available in published engagement communications.

**[609] Gleim #: 8.3.49 -- Source: CIA 1191 I-5**

The best means for the internal audit activity to determine whether its goal of implementing broader coverage of functional activities has been met is through

- A. Accumulation of engagement observations by engagement client.
- B. Comparison of the engagement work schedule with actual engagement activity.
- C. Surveys of management satisfaction with the internal audit activity.
- D. Implementation of a quality assurance program.

**[610] Gleim #: 8.3.50 -- Source: CIA 1187 II-7**

An annual summary report of completed engagement work submitted to senior management and the board by the chief audit executive should

- A. Discuss the administrative condition of the internal audit activity.
- B. Inform management of the scope of proposed work for the following year.
- C. Describe the extent to which the internal audit activity has completed its engagement work schedule.
- D. Emphasize the number of deficiency observations discovered by the internal auditors.

**[611] Gleim #: 8.4.51 -- Source: CIA 1196 I-26**

Audit committees have been identified as a major factor in promoting the independence of both internal and external auditors. Which of the following is the most important limitation on the effectiveness of audit committees?

- A. Audit committees may be composed of independent directors. However, those directors may have close personal and professional friendships with management.
- B. Audit committee members are compensated by the organization and thus favor an owner's view.
- C. Audit committees devote most of their efforts to external audit concerns and do not pay much attention to the internal audit activity and the overall control environment.
- D. Audit committee members do not normally have degrees in the accounting or auditing fields.

**[612] Gleim #: 8.4.52 -- Source: CIA 1192 I-6**

The audit committee may serve several important purposes, some of which directly benefit the internal audit activity. The most significant benefit provided by the audit committee to the internal audit activity is

- A. Protecting the independence of the internal audit activity from undue management influence.
- B. Reviewing annual engagement work schedules and monitoring engagement results.
- C. Approving engagement work schedules, scheduling, staffing, and meeting with the internal auditors as needed.
- D. Reviewing copies of the procedures manuals for selected organizational operations and meeting with organizational officials to discuss them.

**[613] Gleim #: 8.4.53 -- Source: CIA 593 II-13**

To avoid creating conflict between the chief executive officer (CEO) and the audit committee, the chief audit executive should

- A. Submit copies of all engagement communications to the CEO and audit committee.
- B. Strengthen independence through organizational status.
- C. Discuss all pending engagement communications to the CEO with the audit committee.
- D. Request board establishment of policies covering the internal audit activity's relationships with the audit committee.

**[614] Gleim #: 8.4.54 -- Source: CIA 591 II-3**

Which of the following actions is an appropriate response by organizations wishing to improve the public's perception of their financial reporting?

- A. Increased adoption of audit committees composed of outside directors.
- B. Viewing internal auditing as a transient profession -- a stepping stone to managerial positions.
- C. Requiring internal auditors to report all significant observations of illegal activity to the chief executive officer.
- D. Keeping external and internal auditing work separated to maintain independence.

**[615] Gleim #: 8.4.55 -- Source: CIA 1191 II-4**

Which of the following is not an appropriate member of an audit committee?

- A. The vice president of the local bank used by the organization.
- B. An academic specializing in business administration.
- C. A retired executive of a firm that had been associated with the organization.
- D. The organization's vice president of operations.

**[616] Gleim #: 8.4.56 -- Source: CIA 590 II-5**

Which of the following audit committee activities is of the greatest benefit to the internal audit activity?

- A. Review and approval of engagement work programs.
- B. Assurance that the external auditor will rely on the work of the internal audit activity whenever possible.
- C. Review and endorsement of all internal auditing engagement communications prior to their release.
- D. Support for appropriate monitoring of the disposition of recommendations made by the internal audit activity.

**[617] Gleim #: 8.4.57 -- Source: CIA 1190 II-7**

Which of the following features of a large manufacturer's organizational structure is a control weakness?

- A. The information systems department is headed by a vice president who reports directly to the president.
- B. The chief financial officer is a vice president who reports to the chief executive officer.
- C. The audit committee of the board consists of the chief executive officer, the chief financial officer, and a major shareholder.
- D. The controller and treasurer report to the chief financial officer.

**[618] Gleim #: 8.4.58 -- Source: CIA 1189 II-8**

The audit committee strengthens the control processes of an organization by

- A. Assigning the internal audit activity responsibility for interaction with governmental agencies.
- B. Using the chief audit executive as a major resource in selecting the external auditors.
- C. Following up on recommendations made by the chief audit executive.
- D. Approving internal audit activity policies.

**[619] Gleim #: 8.4.59 -- Source: CIA 1191 I-4**

An audit committee of the board of directors of an organization is being established. Which of the following is normally a responsibility of the committee with regard to the internal audit activity?

- A. Approval of the selection and dismissal of the chief audit executive.
- B. Development of the annual engagement work schedule.
- C. Approval of engagement work programs.
- D. Determination of engagement observations appropriate for specific engagement communications.

**[620] Gleim #: 8.4.60 -- Source: Publisher**

The review of findings of regulatory agencies is consistent with which audit committee responsibility?

- A. Reporting responsibilities.
- B. Compliance.
- C. Internal audit.
- D. External audit.

**[621] Gleim #: 8.4.61 -- Source: Publisher**

What part of an audit committee charter states that the audit committee is required to assist the board of directors in fulfilling its oversight responsibilities?

- A. The audit committee's purpose.
- B. The audit committee's authority.
- C. The audit committee's composition.
- D. The audit committee's responsibilities.

**[622] Gleim #: 8.4.62 -- Source: Publisher**

Which of the following communication activities should the chief audit executive provide to the audit committee?

- I. Keep the audit committee informed of emerging trends and successful practices in internal auditing.
  - II. Issue periodic reports to the audit committee and management summarizing results of audit activities.
  - III. Confirm there is effective and efficient work coordination of activities between internal and external auditors.
- 
- A. I only.
  - B. I and II only.
  - C. II and III only.
  - D. I, II, and III.

**[623] Gleim #: 8.4.63 -- Source: Publisher**

Who is responsible for assisting the audit committee so that the charter, role, and activities of the committee are appropriate for it to achieve its responsibilities?

- A. Management.
- B. The board of directors.
- C. The chief audit executive.
- D. The external auditor.

**[624] Gleim #: 8.4.64 -- Source: Publisher**

How often does The IIA's Standards require audit committees to undergo quality assessment reviews of the internal audit activity?

- A. Every year.
- B. Every 3 years.
- C. Every 5 years.
- D. Every 10 years.

**[625] Gleim #: 8.4.65 -- Source: Publisher**

Which of the following is the primary purpose of the work of the internal auditors with respect to the audit committee?

- A. To review information submitted to the audit committee for completeness and accuracy.
- B. To gain a complete understanding of the organization's operations.
- C. To provide a summary report of the results or assessments on the results of the audit activities relating to the defined mission and scope of audit work.
- D. To keep the audit committee informed of emerging trends and successful practices in internal auditing.

**[626] Gleim #: 8.4.66 -- Source: CIA 04 Model Exam I-32**

Who has primary responsibility for providing information to the audit committee on the professional and organizational benefits of coordinating internal audit assurance and consulting activities with other assurance and consulting activities?

- A. The external auditor.
- B. The chief audit executive.
- C. The chief executive officer.
- D. Each assurance and consulting function.

**[627] Gleim #: 8.4.67 -- Source: CIA 04 Model Exam I-50**

During a review of contracts, a chief audit executive (CAE) suspects that a supplier was given an unfair advantage in bidding on a contract. After learning that the chief executive officer (CEO) of the company is a member of the supplier's board of directors, how should the CAE proceed?

- A. Submit a draft report to senior management, excluding the CEO.
- B. Contact the organization's external auditors for assistance.
- C. Obtain supporting documentation and present the finding to the chairperson of the audit committee.
- D. Immediately notify the board of directors.

**[628] Gleim #: 8.4.68 -- Source: CIA 1185 I-7**

Which of the following control and monitoring functions should have their planned activities considered in developing engagement work schedules?

- A. Legal and purchasing.
- B. Security and maintenance.
- C. Production scheduling and environmental.
- D. Compliance and business continuity.



**[629] Gleim #: 8.4.69 -- Source: CIA 1196 III-10**

An audit committee should be designed to enhance the independence of both the internal and external auditing functions and to insulate these functions from undue management pressures. Using this criterion, audit committees should be composed of

- A. A rotating subcommittee of the board of directors or its equivalent.
- B. Only members from the relevant outside regulatory agencies.
- C. Members from all important constituencies, specifically including representatives from banking, labor, regulatory agencies, shareholders, and officers.
- D. Only external members of the board of directors or its equivalent.

**[630] Gleim #: 8.5.70 -- Source: CIA 1192 II-8**

The capabilities of individual staff members are key features in the effectiveness of an internal audit activity. What is the primary consideration used when staffing an internal audit activity?

- A. Background checks.
- B. Job descriptions.
- C. Continuing education.
- D. Organizational orientation.

**[631] Gleim #: 8.5.71 -- Source: CIA 591 I-9**

Having been given the task of developing a performance appraisal system for evaluating the performance of a large internal auditing staff, you should

- A. Provide for an explanation of the appraisal criteria and methods at the time the appraisal results are discussed with the internal auditor.
- B. Provide general information concerning the frequency of evaluations and the way evaluations will be performed without specifying their timing and uses.
- C. Provide primarily for the evaluation of criteria such as diligence, initiative, and tact.
- D. Provide primarily for the evaluation of specific accomplishments directly related to the performance of the engagement work program.

**[632] Gleim #: 8.5.72 -- Source: CIA 592 II-6**

Which of the following aspects of evaluating the performance of staff members is considered to be a violation of good human resources management techniques?

- A. The evaluator should justify very high and very low evaluations because of their impact on the employee.
- B. Evaluations should be made annually or more frequently to provide the employee feedback about competence.
- C. The first evaluation should be made shortly after commencing work to serve as an early guide to the new employee.
- D. Because there are so many employees whose performance is completely satisfactory, it is preferable to use standard evaluation comments.

**[633] Gleim #: 8.5.73 -- Source: CIA 591 II-9**

Which of the following statements most accurately reflects the chief audit executive's responsibilities for internal audit resources?

- A. The CAE is responsible for ensuring that audit coverage is based on the periodic skills assessment.
- B. The CAE is responsible for evaluating the detailed summary of audit resources presented by management to the board.
- C. The CAE is not responsible for such human resource functions as evaluation and development.
- D. The CAE is responsible for communicating resource needs to the board but has no explicit responsibility for administering the organization's compensation program.

**[634] Gleim #: 8.5.74 -- Source: CIA 1192 I-9**

In most organizations, the rapidly expanding scope of internal auditing responsibilities requires continual training. What is the main purpose of such a training program?

- A. To comply with continuing education requirements of professional organizations.
- B. To use slack periods in engagement scheduling.
- C. To help individuals to achieve personal career goals.
- D. To achieve both individual and organizational goals.

**[635] Gleim #: 8.5.75 -- Source: CIA 591 I-10**

The key factor in the success of an internal audit activity's human resources program is

- A. An informal program for developing and counseling staff.
- B. A compensation plan based on years of experience.
- C. A well-developed set of selection criteria.
- D. A program for recognizing the special interests of individual staff members.

**[636] Gleim #: 8.5.76 -- Source: CIA 591 II-13**

What is the most appropriate preventive measure for staff communication problems with engagement clients?

- A. Provide staff with sufficient training to enhance communication skills.
- B. Avoid unnecessary communication with engagement clients.
- C. Discuss communication problems with staff auditors.
- D. Meet with engagement clients to resolve communication problems.

**[637] Gleim #: 8.5.77 -- Source: CIA 04 Model Exam I-18**

In selecting an instructional strategy for developing internal audit staff, a chief audit executive should begin by reviewing

- A. Organizational objectives.
- B. Learning content.
- C. Learners' readiness.
- D. Budget constraints.

**[638] Gleim #: 8.5.78 -- Source: CIA 04 Model Exam I-20**

The most important reason for the chief audit executive to ensure that the internal audit department has adequate and sufficient resources is to

- A. Ensure that the function is adequately protected from outsourcing.
- B. Demonstrate sufficient capability to meet the audit plan requirements.
- C. Establish credibility with the audit committee and management.
- D. Fulfill the need for effective succession planning.

**[639] Gleim #: 8.5.79 -- Source: CIA 04 Model Exam I-38**

The internal audit activity has recently experienced the departure of two internal auditors who cannot be immediately replaced due to budget constraints. Which of the following is the **least** desirable option for efficiently completing future engagements, given this reduction in resources?

- A. Using self-assessment questionnaires to address audit objectives.
- B. Employing information technology in audit planning, sampling, and documentation.
- C. Eliminating consulting engagements from the engagement work schedule.
- D. Filling vacancies with personnel from operating departments that are not being audited.

**[640] Gleim #: 8.5.80 -- Source: IIA, adapted**

When conducting a performance appraisal of an internal auditor who has been a below-average performer, an inappropriate procedure is to

- A. Notify the internal auditor of the upcoming appraisal several days in advance.
- B. Use objective, impartial language.
- C. Use generalizations.
- D. Document the appraisal.

**[641] Gleim #: 8.5.81 -- Source: CIA 594 III-93**

The engagement team leader is least likely to have a primary role in

- A. Allocating budgeted engagement hours among assigned staff.
- B. Updating the permanent files.
- C. Reviewing the working papers.
- D. Preparing the critique sheet for the engagement.

**[642] Gleim #: 8.5.82 -- Source: CIA 594 I-58**

When determining the number and experience level of an internal audit staff to be assigned to an engagement, the chief audit executive should consider all of the following except the

- A. Complexity of the engagement.
- B. Available internal audit activity resources.
- C. Training needs of internal auditors.
- D. Lapsed time since the last engagement.

**[643] Gleim #: 8.5.83 -- Source: CIA 1193 III-9**

By comparing job descriptions with the qualifications and duties of the individuals currently holding those jobs, a manager can

- A. Complete the human resource planning cycle.
- B. Determine whether the organization is appropriately staffed.
- C. Forecast future personnel needs.
- D. Determine which employees should be promoted.

**[644] Gleim #: 8.5.84 -- Source: CIA 591 III-12**

Which of the following items would not be an appropriate staffing issue?

- A. Selecting qualified and competent individuals.
- B. Providing a competitive selection of employee benefits.
- C. Providing continuing educational opportunities for each internal auditor.
- D. Appraising each internal auditor's performance at least annually.

**[645] Gleim #: 8.5.85 -- Source: CIA 592 I-12**

When assigning individual staff members to actual engagements, internal auditing managers are faced with a number of important considerations related to needs, abilities, and skills. Which of the following is the least appropriate criterion for assigning a staff internal auditor to a specific engagement?

- A. The staff internal auditor's desire for training in the area.
- B. The complexity of the engagement.
- C. The experience level of the internal auditor.
- D. Special skills possessed by the staff internal auditor.

**[646] Gleim #: 8.5.86 -- Source: CIA 1192 II-9**

Staff members should be afforded an appropriate means through which they can discuss problems and receive updates regarding internal audit activity's policies. The most appropriate forum for this objective is

- A. The internal audit activity's informal communication lines.
- B. Internal memoranda.
- C. Staff meetings.
- D. Employee evaluation conferences.

**[647] Gleim #: 8.5.87 -- Source: CIA 585 II-7**

An important part of an internal audit activity's personnel development plan should be on-the-job training. Which of the following activities is the most important in broadening a staff internal auditor's knowledge?

- A. Rotating staff internal auditors through a variety of assignments.
- B. Developing expertise in a few particular areas by continuously assigning the same internal auditor to those areas.
- C. Allowing staff internal auditors to participate in choosing the projects assigned.
- D. Assigning staff internal auditors to particular supervisor-trainers for extended periods.

**[648] Gleim #: 8.5.88 -- Source: CIA 587 II-10**

The chief audit executive can best ensure that staff internal auditors are prepared to meet their existing responsibilities by

- A. Enforcing established recruiting and selection criteria.
- B. Counseling them on their performance and providing appropriate training opportunities.
- C. Having experienced internal auditors supervise their work closely.
- D. Conducting formal evaluations of their performance on each assignment.

**[649] Gleim #: 8.5.89 -- Source: CIA 587 II-8**

Staff members of the internal audit activity should be assigned to engagements and training projects that will enable them to develop their potential. Which of the following should be the most important consideration in making assignments that will allow staff members to develop properly?

- A. The skills and experience levels of individual auditors.
- B. Specific training requirements imposed by the Standards.
- C. The importance of giving all staff members extensive supervisory experience.
- D. Special interests of individual staff members.

**[650] Gleim #: 8.5.90 -- Source: CIA 587 II-12**

The chief audit executive meets with the members of the internal audit activity at scheduled staff meetings. Which of the following is the most appropriate function of such a staff meeting?

- A. Developing the engagement work schedule.
- B. Revising travel, promotion, and compensation policies.
- C. Explaining administrative policies and obtaining suggestions from the staff.
- D. Developing long-range training programs that will meet the staff's needs.

**[651] Gleim #: 8.5.91 -- Source: CIA 587 II-13**

Any program for selecting and developing the human resources of the internal audit activity will fail unless compensation is adequate at all levels of responsibility. Policies concerning compensation should

- A. Link internal auditors' compensation to the pay for comparable positions in the controller's department.
- B. Provide for cost-of-living, longevity, and merit increases annually.
- C. Be informal and as flexible as possible to allow the chief audit executive to respond to unusual situations.
- D. Be clearly stated and based on evaluations of position requirements and individual performance.

**[652] Gleim #: 8.5.92 -- Source: CIA 588 I-12**

An internal audit activity uses the pool concept to assign all staff and most senior internal auditors to engagements. Which of the following would most likely ensure effective staff use?

- A. Annual activity reports for the internal audit activity.
- B. Monthly engagement work schedules.
- C. Permanent files of the activities to be reviewed.
- D. Results of the last external assessment of the internal audit activity.

**[653] Gleim #: 8.5.93 -- Source: CIA 1189 II-5**

Which of the following is a necessary part of a program for selecting and developing internal audit activity staff?

- A. Specifying that an accounting degree is necessary for employment.
- B. Developing a written job description for each level of the staff.
- C. Counseling each member of the staff on career opportunities.
- D. Requiring a written examination prior to employment.

**[654] Gleim #: 8.5.94 -- Source: CIA 590 I-10**

The advantage attributed to the establishment of internal auditing field offices for work at foreign locations is best described as

- A. The possibility of increased objectivity of personnel assigned to a field office.
- B. A reduction of travel time and related travel expense.
- C. The increased ease of maintaining uniform organization-wide standards.
- D. More contact with senior personnel leading to an increase in control.

**[655] Gleim #: 8.5.95 -- Source: CIA 590 II-8**

The requirements for staffing level, education and training, and research should be included in

- A. The internal audit activity's charter.
- B. The internal audit activity's policies and procedures manual.
- C. The annual plan for the internal audit activity.
- D. Job descriptions for the various staff positions.

**[656] Gleim #: 8.5.96 -- Source: CIA 1190 I-3**

An internal audit activity's staff development program will be deficient if individual employees are

- A. Given a large variety of tasks to perform.
- B. Expected to study current events on an independent basis.
- C. Assigned to a different supervisor on each job.
- D. Formally evaluated once every 2 years.

**[657] Gleim #: 8.5.97 -- Source: CIA 1194 III-19**

Although all the current members of an internal audit activity have good records of performance, the manager is not sure if any of the members are ready to assume a management role. Which of the following is an advantage of bringing in an outsider rather than promoting from within?

- A. Management training costs are reduced when a qualified outsider is hired.
- B. The manager can be sure that the new position will be filled by a competent employee.
- C. Bringing in an outsider is a less expensive alternative than promoting from within.
- D. The "modeling" effect is strengthened by bringing in a new role model.

**[658] Gleim #: 8.5.98 -- Source: CIA 594 I-7**

Many administrative tasks are performed during the course of an internal auditing engagement. Various tasks are shown below and given a number. In the answers below, the numbered tasks are grouped as being done primarily by a staff internal auditor, internal audit manager, or chief audit executive. Only one of the following groupings is correct. Select the answer in which listed tasks are most appropriately grouped according to position.

1. The engagement client is selected and the scope of the engagement assigned.
2. An initial interview is held with the engagement client explaining the scope of the engagement.
3. Working papers are prepared showing engagement work performed.
4. Engagement work is supervised during the field work.
5. Working papers are reviewed.
6. Inquiry is made of engagement client management to explain unusual observations.
7. Working papers are finalized and a preliminary communication is prepared.
8. Review draft engagement observations, conclusions, and recommendations with management.
9. After the engagement communication has been discussed with engagement client management, the communication and working papers receive a final review before the engagement communication is signed, published, and distributed.

Not all tasks are listed in each answer and some of the numbered tasks could be done by more than one of the three internal auditing personnel.

	Staff Internal Auditor	Internal Audit Manager	Chief Audit Executive
A.	3, 6, 7	2, 5, 8	1, 8, 9
B.	2, 4, 7	3, 4, 8	1, 6, 9
C.	3, 7, 9	2, 4, 6	2, 3, 8
D.	2, 7, 9	4, 6, 8	1, 5, 6

**[659] Gleim #: 8.5.99 -- Source: CIA 588 II-15**

The effectiveness of an internal auditing engagement is related to the results and the action taken on those results. Which of the following activities contributes to engagement effectiveness?

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

**[660] Gleim #: 8.6.100 -- Source: CIA 596 III-2**

In most cases, an internal audit activity should document policies and procedures to ensure the consistency and quality of its work. The exception to this principle is directly related to

- A. Departmentation.
- B. Division of labor.
- C. Size of the internal audit activity.
- D. Authority.

**[661] Gleim #: 8.6.101 -- Source: CIA 591 I-12**

Which of the following is most essential for guiding the internal audit staff in maintaining daily compliance with the internal audit activity's standards of performance?

- A. Quality program assessments.
- B. Position descriptions.
- C. Performance appraisals.
- D. Policies and procedures.

**[662] Gleim #: 8.6.102 -- Source: CIA 1192 I-8**

Policies and procedures should be established to guide the internal audit activity. Which of the following statements is false with respect to this requirement?

- A. The form and content of written policies and procedures should be appropriate to the size of the internal audit activity.
- B. All internal audit activities should have a detailed policies and procedures manual.
- C. Formal administrative and technical manuals may not be needed by all internal auditing activities.
- D. A small internal audit activity may be managed informally through close supervision and written memos.

**[663] Gleim #: 8.6.103 -- Source: CIA 1191 I-8**

Which of the items below most likely reflects differences between the policies of a relatively large and a relatively small internal audit activity? The policies for the large activity should

- A. Define the scope and status of internal auditing.
- B. Contain the authority to carry out engagements.
- C. Be specific as to activities to be carried out.
- D. Be in considerable detail.

**[664] Gleim #: 8.6.104 -- Source: CIA 591 I-15**

Policies and procedures relative to managing the internal audit activity should

- A. Ensure compliance with its performance standards.
- B. Give consideration to its structure and the complexity of the work performed.
- C. Result in consistent job performance.
- D. Prescribe the format and distribution of engagement communications and the classification of engagement observations.

**[665] Gleim #: 8.6.105 -- Source: CIA 1185 II-2**

The chief audit executive for a large decentralized organization has developed a manual containing comprehensive detailed written procedures as a guide for the decentralized engagement work groups, each of which has 20 to 30 internal auditors. The organization recently acquired a small entity that has an internal audit activity consisting of a supervisor and two staff personnel. Which of the following actions is the most practical in providing administrative guidance for this new internal audit activity?

- A. Select key procedures from the manual and use informal supervisory direction for other engagement management issues.
- B. Use informal supervisory direction for engagement management issues.
- C. Use the already developed manual.
- D. Adopt the administrative procedures being followed by the internal auditors of the acquired entity.

**[666] Gleim #: 8.6.106 -- Source: CIA 588 I-9**

Written policies and procedures relative to managing the internal audit activity should

- A. Ensure compliance with its performance standards.
- B. Give consideration to its structure and the complexity of the work performed.
- C. Result in consistent job performance.
- D. Prescribe the format and distribution of engagement communications and the classification of observations.

**[667] Gleim #: 8.6.107 -- Source: CIA 1188 I-10**

Which of the following, though not appropriate for use with a large internal audit activity, is an acceptable approach for managing a small internal audit activity?

- A. Preparing comprehensive policies and procedures.
- B. Writing detailed instructions and guidelines for each engagement area.
- C. Using only daily, close supervision and written memoranda.
- D. Developing technical manuals to guide performance.

**[668] Gleim #: 8.6.108 -- Source: CIA 1190 I-4**

Policies and procedures should be established to guide the internal audit activity. Which of the following statements is false with respect to this requirement?

- A. The form and content of written policies and procedures should be appropriate to the size of the internal audit activity.
- B. All internal auditing entities should have a detailed policies and procedures manual.
- C. Formal administrative and technical manuals may not be needed by all internal auditing entities.
- D. A small internal audit activity may be managed informally through close supervision and written memos.

**[669] Gleim #: 9.1.1 -- Source: CIA 1196 III-35**

Which of the following is a false 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. Sufficient meetings should be scheduled between internal and external auditors to assure timely and efficient completion of the work.
- C. Internal and external auditors may exchange engagement communications and management letters.
- D. Internal auditors may provide engagement work programs and working papers to external auditors.

**[670] Gleim #: 9.1.2 -- Source: CIA 594 III-90**

In recent years, which two factors have changed the relationship between internal auditors and external auditors so that internal auditors are partners rather than subordinates?

- A. The increasing liability of external auditors and the increasing professionalism of internal auditors.
- B. The increasing professionalism of internal auditors and the evolving economics of external auditing.
- C. The use of computerized accounting systems and the evolving economics of external auditing.
- D. The globalization of audit entities and the increased reliance on computerized accounting systems.

**[Fact Pattern #15]**

You are the chief audit executive of a parent organization that has foreign subsidiaries. Independent external audits performed for the parent are not conducted by the same firm that conducts the foreign subsidiary audits. Because the internal audit activity occasionally provides direct assistance to both external firms, you have copies of audit programs and selected working papers produced by each firm.

**[671] Gleim #: 9.1.3 -- Source: CIA 592 II-8**

(Refers to Fact Pattern #15)

The foreign subsidiary's auditors would like to rely on some of the work performed by the parent organization's audit firm, but they need to review the working papers first. They have asked you for copies of the working papers of the parent organization's audit firm. What is the most appropriate response to the foreign subsidiary's auditors?

- A. Provide copies of the working papers without notifying the parent's audit firm.
- B. Notify the parent's auditors of the situation and request that they either provide the working papers or authorize you to do so.
- C. Provide copies of the working papers and notify the parent's audit firm that you have done so.
- D. Refuse to provide the working papers under any circumstances.

**[672] Gleim #: 9.1.4 -- Source: CIA 592 II-9**

(Refers to Fact Pattern #15)

The foreign subsidiary's external audit firm wants to rely on an audit of a function at the parent organization. The audit was conducted by the internal audit activity. To place reliance on the work performed, the foreign subsidiary's auditors have requested copies of the working papers. What is the most appropriate response to the foreign subsidiary's auditors?

- A. Provide copies of the working papers.
- B. Ask the parent's audit firm if it is appropriate to release the working papers.
- C. Ask the board for permission to release the working papers.
- D. Refuse to provide the working papers under any circumstances.



**[673] Gleim #: 9.1.5 -- Source: CIA 592 II-3**

To improve their efficiency, internal auditors may rely upon the work of external auditors if it is

- A. Performed after the internal auditing work.
- B. Primarily concerned with operational objectives and activities.
- C. Coordinated with internal auditing work.
- D. Conducted in accordance with the Code of Ethics.

**[674] Gleim #: 9.1.6 -- Source: CIA 594 III-1**

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

- A. External auditors must assess the competence and objectivity of internal auditors.
- B. There may be periodic meetings between internal and external auditors to discuss matters of mutual interest.
- C. There may be an exchange of engagement communications and management letters.
- D. Internal auditors may provide engagement work programs and working papers to external auditors.

**[675] Gleim #: 9.1.7 -- Source: CIA 04 Model Exam I-31**

If a department outside of the internal audit activity is responsible for reviewing a function or process, the internal auditors should:

- A. Consider the work of the other department when assessing the function or process.
- B. Ignore the work of the other department and proceed with an independent audit.
- C. Reduce the scope of the audit since the work has already been performed by the other department.
- D. Yield the responsibility for assessing the function or process to the other department.

**[676] Gleim #: 9.1.8 -- Source: CIA 04 Model Exam I-49**

Assessments of the independence of an organization's external auditors should:

- A. Be carried out only when the external auditor is appointed.
- B. Not include any participation by the internal audit activity.
- C. Include the internal audit activity only when the external auditor is appointed.
- D. Include the internal audit activity at the time of appointment and regularly thereafter.

**[677] Gleim #: 9.1.9 -- Source: CIA 1193 II-2**

An internal audit activity is often requested to coordinate its work with that of the external auditors. Which of the following activities is most likely to be restricted to the external auditor?

- A. Evaluating the system of controls over cash collections and similar transactions.
- B. Attesting to the fairness of presentation of cash position.
- C. Evaluating the adequacy of the organization's overall system of internal controls.
- D. Reviewing the system established to ensure compliance with laws, regulations, and contracts.

**[678] Gleim #: 9.1.10 -- Source: CIA 594 I-15**

Which of the following statements is true regarding coordination of internal and external auditing efforts?

- A. The chief audit executive should not give information about illegal acts to an external auditor because external auditors may be required to report the matter to the board or regulatory agencies.
- B. Ownership and the confidentiality of the external auditor's working papers prohibit their review by internal auditors.
- C. The chief audit executive should determine that appropriate follow-up and corrective action was taken by management when required regarding matters discussed in the external auditor's management letter.
- D. If internal auditors provide assistance to the external auditors in connection with the annual audit, such assistance is not subject to the Standards.

**[679] Gleim #: 9.1.11 -- Source: CIA 591 I-21**

The chief audit executive plans to meet with the independent external auditor to discuss joint efforts regarding an upcoming external audit of the organization's pension plan. The independent external auditor has performed all external audit work in this area in the past. The CAE's objective is to

- A. Determine whether work in this area could not be performed exclusively by the internal auditors.
- B. Coordinate the external audit so as to fulfill professional responsibilities and not duplicate work of the independent external auditor.
- C. Ascertain which account balances have been tested by the independent external auditor so that the internal auditors may test the internal controls to determine the reliability of these balances.
- D. Determine whether the independent external auditor's techniques, methods, and terminology should be used by internal auditors in this area to conform with past work or to use techniques consistent with those used by other internal auditors.

**[680] Gleim #: 9.1.12 -- Source: CIA 588 II-10**

Exchange of engagement communications and management letters by internal and external auditors is

- A. Consistent with the coordination responsibilities of the chief audit executive.
- B. Not consistent with the independence guidelines of the Standards.
- C. A violation of the Code of Ethics.
- D. Not addressed by the Standards.

**[681] Gleim #: 9.1.13 -- Source: CIA 1190 II-5**

Coordination of internal and external auditing can reduce the overall costs. Who is responsible for actual coordination of internal and external auditing efforts?

- A. Chief audit executive.
- B. External auditor.
- C. The board.
- D. Management.

**[682] Gleim #: 9.1.14 -- Source: Publisher**

Which of the following are phases in the benchmarking process?

- A. Organization of benchmarking teams and data analysis.
- B. Setting up databases and implementation.
- C. Data analysis and identifying performance gaps
- D. Develop a family of measures indicating process performance and develop a process taxonomy.

**[683] Gleim #: 9.1.15 -- Source: CIA 594 III-1**

Which of the following is a false statement about the relationship between internal auditors and external auditors?

- A. External auditors must assess the competence and objectivity of internal auditors.
- B. There may be periodic meetings between internal and external auditors to discuss matters of mutual interest.
- C. There may be an exchange of engagement communications and management letters.
- D. Internal auditors may provide engagement work programs and working papers to external auditors.

**[684] Gleim #: 9.2.16 -- Source: Publisher**

Appropriate policies for selection or retention of external audit services should consider addressing the following attributes except

- A. Nature and type of services covered by the policy.
- B. The need to limit negotiations to the current external auditor.
- C. Regulatory or other governing requirements unique to specific industries or countries.
- D. Participants or members of the selection and evaluation team.

**[685] Gleim #: 9.2.17 -- Source: Publisher**

Why should internal auditors help develop policies for the selection, evaluation, or retention of external auditor services other than for an external audit?

- A. So that the present external audit service providers do not view a decision to request proposals as a signal that the organization is dissatisfied with present services.
- B. Such services cannot be subject to any other existing procurement policies of the organization.
- C. Internal auditors must coordinate activities with external providers of assurance services.
- D. It is required in the charter of the internal audit function.

**[686] Gleim #: 9.2.18 -- Source: Publisher**

Services other than financial statement audits may be offered by external audit firms (e.g., tax services, external legal services). Acquisition of these other services is addressed in

- A. Board policies.
- B. Preliminary survey.
- C. Administrative policy and procedure manuals.
- D. Policies of the internal audit activity.

**[687] Gleim #: 9.2.19 -- Source: Publisher**

Written agreements for external audit engagements are to be signed by the

- A. Chief audit executive and internal auditors.
- B. Service provider and engagement client.
- C. Audit committee and chief audit executive.
- D. Board of directors and chief audit executive.

**[688] Gleim #: 9.2.20 -- Source: Publisher**

During a two-phased screening process for selecting a service provider for external auditing, the second request for information is most likely to ask for

- A. The firm's special expertise.
- B. Pricing for services.
- C. Industry experience.
- D. Office handling the engagement.

**[689] Gleim #: 9.3.21 -- Source: CIA 1196 III-31**

A quality assurance and improvement program of an internal audit activity provides reasonable assurance that internal auditing work is performed in accordance with its charter. Which of the following are designed to provide feedback on the effectiveness of an internal audit activity?

- I. Proper supervision
- II. Proper training
- III. Internal reviews
- IV. External reviews

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

**[690] Gleim #: 9.3.22 -- Source: CIA 04 Model Exam I-21**

Which of the following is part of an internal audit activity's quality assurance program, rather than being included as part of other responsibilities of the chief audit executive (CAE)?

- A. The CAE provides information about and access to internal audit workpapers to the external auditors to enable them to understand and determine the degree to which they may rely on the internal auditors' work.
- B. Management approves a formal charter establishing the purpose, authority, and responsibility of the internal audit activity.
- C. Each individual internal auditor's performance is appraised at least annually.
- D. Supervision of an internal auditor's work is performed throughout each audit engagement.

**[691] Gleim #: 9.3.23 -- Source: CIA 594 I-17**

The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. All of the following are included in a quality program except

- A. Annual appraisals of individual internal auditors' performance.
- B. Periodic internal assessment.
- C. Supervision.
- D. Periodic external assessments.

**[692] Gleim #: 9.3.24 -- Source: CIA 591 I-4**

An individual became head of the internal audit activity (IAA) of an organization one week ago. An engagement client has come to the person complaining vigorously that one of the internal auditors is taking up an excessive amount of client time on an engagement that seems to be lacking a clear purpose. In handling this conflict with a client, the person should consider

- A. Discounting what is said, but documenting the complaint.
- B. Whether existing procedures within the internal audit activity provide for proper planning and quality assurance.
- C. Presenting an immediate defense of the internal auditor based upon currently known facts.
- D. Promising the client that the internal auditor will finish the work within 1 week.

**[693] Gleim #: 9.3.25 -- Source: CIA 585 II-11**

Procedures describing how the supervisory review of staff auditors will be accomplished should be fully documented so that the internal audit activity will

- A. Comply with the Standards.
- B. Have a consistent framework for evaluating staff performance.
- C. Have a basis for promotions, pay raises, or disciplinary actions, if required.
- D. Have substantiation of its quality assurance and improvement program.

**[694] Gleim #: 9.4.26 -- Source: CIA 593 II-7**

Ordinarily, those conducting internal quality program assessments should report to

- A. The board.
- B. The chief audit executive.
- C. Senior management.
- D. The internal auditing staff.

**[695] Gleim #: 9.4.27 -- Source: CIA 1195 I-39**

Supervision of the work of internal auditors should be carried out continually. Which of the following statements regarding supervision is(are) true?

- I. "Continually" indicates that supervision should be performed throughout the engagement.
- II. Supervision should also be extended to training, time reporting, and expense control.
- III. The extent of supervision needs to be documented.

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

**[696] Gleim #: 9.4.28 -- Source: CIA 1186 I-30**

As a part of a quality program, internal assessment teams most likely will examine which of the following to evaluate the quality of engagement planning and documentation for individual engagements?

- A. Written engagement work programs.
- B. Project assignment documentation.
- C. Weekly status reports.
- D. The long-range engagement work schedule.

**[697] Gleim #: 9.5.29 -- Source: CIA 1192 II-10**

Quality program assessments may be performed internally or externally. A distinguishing feature of an external assessment is its objective to

- A. Identify tasks that can be performed better.
- B. Determine whether internal auditing services meet professional standards.
- C. Set forth the recommendations for improvement.
- D. Provide independent assurance.

**[698] Gleim #: 9.5.30 -- Source: CIA 1191 II-3**

External assessment of an internal audit activity is not likely to evaluate

- A. Adherence to the internal audit activity's charter.
- B. Compliance with the Standards for the Professional Practice of Internal Auditing.
- C. Detailed cost-benefit analysis of the internal audit activity.
- D. The tools and techniques employed by the internal audit activity.

**[699] Gleim #: 9.5.31 -- Source: Publisher**

The final results of an external assessment review of an internal audit activity (IAA) should be communicated to the chief audit executive (CAE) or other appropriate authorizing official. This communication may include

- A. The reviewer's statement of an action plan in response to the recommendations.
- B. An opinion on whether the practices of the IAA as a whole comply with the Standards.
- C. An opinion on the IAA's compliance with its charter.
- D. The reviewer's assessment of the use of best practices, other recommendations, and statement of implementation dates for responses to the review.

**[700] Gleim #: 9.5.32 -- Source: CIA 1185 I-2**

External assessments of an internal audit activity should assess (and may express an opinion on) the

- A. Internal audit activity's compliance with the Standards.
- B. Effectiveness of the internal auditing coverage.
- C. Adequacy of internal control.
- D. Conformance with the internal audit activity's charter.

**[701] Gleim #: 9.5.33 -- Source: CIA 1190 I-6**

The interpretation related to quality assurance given by the Standards is that

- A. External assessments can provide senior management and the board with independent assurance about the quality of the internal audit activity.
- B. Appropriate follow-up to an external assessment is the responsibility of the chief audit executive's immediate supervisor.
- C. The internal audit activity is primarily measured against the Institute's Code of Ethics.
- D. Continual supervision is limited to the planning, examination, evaluation, communication, and follow-up process.

**[702] Gleim #: 9.5.34 -- Source: Publisher**

Which of the following statements concerning an external assessment of the internal audit activity is false?

- A. The evaluation of compliance with the Standards is a critical component of an external assessment.
- B. The board scope of coverage should include compliance with the applicable regulatory requirements.
- C. The report may include appropriate recommendations for improvement.
- D. The report shall be addressed to the audit committee.

**[703] Gleim #: 9.6.35 -- Source: Publisher**

According to Standard 1340, disclosure should be made to senior management and the board whenever

- A. The internal audit activity does not comply with the Standards.
- B. The internal auditors do not comply with the Code of Ethics.
- C. The internal audit activity does not comply with the Standards, or the internal auditors do not comply with the Code of Ethics.
- D. Noncompliance with the Standards or the Code of Ethics affects the overall operation of the internal audit activity.

**[704] Gleim #: 9.6.36 -- Source: Publisher**

Internal auditors may report that their activities are conducted in accordance with the Standards. They may use this statement only if

- A. They demonstrate compliance with the Standards.
- B. An independent external assessment of the internal audit activity is conducted annually.
- C. Senior management or the board is accountable for implementing a quality program.
- D. External assessments of the internal audit activity are made by external auditors.

**[705] Gleim #: 9.6.37 -- Source: Publisher**

When is initial use of the compliance phrase by internal auditors appropriate?

- A. After an internal review completed within the past five years shows compliance.
- B. After an external review completed within the past ten years.
- C. After an internal review completed within the past ten years.
- D. After an external review completed within the past five years shows compliance.

**[706] Gleim #: 9.6.38 -- Source: Publisher**

Following an external assessment of the internal audit activity, who is (are) responsible for communicating the results to the board?

- A. Internal auditors.
- B. Audit committee.
- C. Chief audit executive.
- D. External auditors.

**[707] Gleim #: 9.6.39 -- Source: Publisher**

Reporting on the internal audit activity's quality program by the external review team should include a formal report. It should contain an opinion on

- A. The IAA's compliance with the IAA's charter.
- B. The IAA's compliance with the Standards.
- C. The IAA's recommendations for improvement.
- D. The chief audit executive's written action plan.

**[708] Gleim #: 9.7.40 -- Source: Publisher**

Which of the following statements regarding benchmarking is false?

- A. Benchmarking involves continuously evaluating the practices of best-in-class organizations and adapting company processes to incorporate the best of these practices.
- B. Benchmarking, in practice, usually involves a company's formation of benchmarking teams.
- C. Benchmarking is an ongoing process that entails quantitative and qualitative measurement of the difference between the company's performance of an activity and the performance by the best in the world or the best in the industry.
- D. The benchmarking organization against which a firm is comparing itself must be a direct competitor.

**[709] Gleim #: 9.7.41 -- Source: CIA**

An example of an internal nonfinancial benchmark is

- A. The labor rate of comparably skilled employees at a major competitor's plant.
- B. The average actual cost per pound of a specific product at the company's most efficient plant.
- C. A \$50,000 limit on the cost of employee training programs at each of the company's plants.
- D. The percentage of customer orders delivered on time at the company's most efficient plant.

**[710] Gleim #: 9.7.42 -- Source: Publisher**

In a benchmarking activity, the critical steps for researching and identifying best-in-class performance are

- A. Setting up databases, identifying performance gaps, understanding the reasons they exist, and prioritizing the key activities that will facilitate changes needed to implement recommendations.
- B. Setting up databases, choosing information-gathering methods, formatting questionnaires, and selecting benchmarking partners.
- C. Setting up databases, applying quality principles, integrating information technology and auditing, and developing performance measures.
- D. Identifying performance gaps, understanding the reasons they exist, choosing information-gathering methods, and prioritizing the key activities that will facilitate changes needed to implement recommendations.

**[711] Gleim #: 10.1.1 -- Source: CIA 595 II-6**

Internal auditors must use both inductive and deductive reasoning when gathering information and reaching conclusions. They must also understand the differences between the two types of reasoning in order to assess the strengths and weaknesses of each. Which of the following procedures uses deductive reasoning?

- A. The internal auditor uses generalized audit software to select a sample of items for confirmation. Based on the confirmation responses, the auditor concludes that accounts receivable as recorded exist.
- B. The internal auditor performs analytical procedures to estimate the accuracy of the sales account balance. No material differences are noted. Based on this, the internal auditor assumes that the underlying record keeping must be correct.
- C. The internal auditor observes the client's physical inventory process and records test counts of inventory. Those test counts are traced to the year-end inventory compilation, and no exceptions are noted. The internal auditor concludes that the compiled inventory exists.
- D. The internal auditor examines sales transactions recorded during January Year 2 and finds that none of those sales represent Year 1 sales. The internal auditor concludes that Year 1 sales are recorded properly.

**[712] Gleim #: 10.1.2 -- Source: CIA 596 I-36**

The internal auditor is concerned about whether all the debits to the computer security expense account are appropriate expenditures. The most appropriate engagement procedure is to

- A. Take an attribute sample of computing invoices and determine whether all invoices are properly classified.
- B. Perform an analytical review comparing the amount of expenditures incurred this year with the amounts incurred on a trend line for the past 5 years.
- C. Take an attribute sample of employee wage expenses incurred by the outsourcing organization and trace to the proper account classification.
- D. Take a sample of all debits to the account and investigate by examining source documents to determine the nature and authority of the expenditure.

**[713] Gleim #: 10.1.3 -- Source: CIA 594 I-10**

A production manager for a moderate-sized manufacturer began ordering excessive raw materials and had the materials delivered to a wholesaler the manager runs as a side business. The manager falsified receiving documents and approved the invoices for payment. Which of the following engagement procedures most likely will detect this fraud?

- A. Take a sample of cash disbursements; compare purchase orders, receiving reports, invoices, and check copies.
- B. Take a sample and confirm the amount purchased, purchase price, and date of shipment with the vendors.
- C. Observe the receiving dock and count materials received; compare the counts to receiving reports completed by receiving personnel.
- D. Prepare analytical tests comparing production, materials purchased, and raw materials inventory levels and investigate differences.

**[714] Gleim #: 10.1.4 -- Source: CIA 1190 II-15**

To determine whether credit controls are inconsistently applied, preventing valid sales to creditworthy customers, the internal auditor should

- A. Confirm current accounts receivable.
- B. Trace postings on the accounts receivable ledger.
- C. Analyze collection rates and credit histories.
- D. Compare credit histories for those receiving credit and for those denied credit.

**[Fact Pattern #16]**

The internal audit activity has been assigned to perform an engagement involving a division. Based on background review, the internal auditor knows the following about management policies:

- Organizational policy is to rapidly promote divisional managers who show significant success. Thus, successful managers rarely stay at a division for more than 3 years.
- A significant portion of division management's compensation comes in the form of bonuses based on the division's profitability.

The division was identified by senior management as a turnaround opportunity. The division is growing but is not scheduled for a full audit by the external auditors this year. The division has been growing about 7% per year for the past 3 years and uses a standard cost system.

During the preliminary review, the internal auditor notes the following changes in financial data compared with the prior year:

- Sales have increased by 10%.
- Cost of goods sold has increased by 2%.
- Inventory has increased by 15%.
- Divisional net profit has increased by 8%.

**[715] Gleim #: 10.1.5 -- Source: CIA 595 I-45**

(Refers to Fact Pattern #16)

It is November and the internal auditing manager is finalizing plans for a year-end engagement at the division. Based on the data, the engagement procedure with highest priority is to

- A. Select sales transactions and trace shipping documents to entries into cost of goods sold to determine whether all shipments were recorded.
- B. Schedule a complete count of inventory at year-end and have the internal auditor observe and test the year-end inventory.
- C. Schedule a complete investigation of the standard cost system by preparing cost buildups of a sample of products.
- D. Schedule a year-end sales cutoff test.



**[716] Gleim #: 10.1.6 -- Source: CIA 1193 II-9**

The internal auditor found that the purchasing department has a policy of setting all purchasing lead times to the highest number of days experienced within each product subassembly, even though some subassemblies required 3 or more months to complete. To address the objective of reducing inventory holding costs related to this policy, the internal auditor should focus on

- A. Reviewing production requirements for a sample of products to determine at which point in the production process materials and subassemblies are needed.
- B. Evaluating whether product-line assignments were rotated among the members of the purchasing department.
- C. Identifying signature approval authority among members of the purchasing department in relation to any computer system controls.
- D. Testing those products having the highest sales to determine the average number of days that the completed products were held in inventory.

**[717] Gleim #: 10.1.7 -- Source: CIA 593 I-16**

A large manufacturer has a transportation division that supplies gasoline for the organization's vehicles. Gasoline is dispensed by an attendant who records the amount issued on a serially prenumbered gasoline disbursement form, which is then given to the accounting department for proper recording. When the quantity of gasoline falls to a certain level, the service station attendant prepares a purchase requisition and sends it to the purchasing department where a purchase order is prepared and recorded in a gasoline purchases journal. Which of the following engagement procedures will best determine whether gasoline disbursements are fully and completely recorded?

- A. Compare the gasoline purchase requisitions with the gasoline disbursement records.
- B. Select a number of gasoline purchases from the gasoline purchases journal and compare them with their corresponding purchase orders and ascertain that they are serially prenumbered, are matched with purchase requisitions, and are authorized by someone independent of employees of the service station.
- C. Perform analytical procedures comparing this period's gasoline consumption with prior periods.
- D. Match the quantity of gasoline disbursed according to disbursement forms with an independent reading of quantity disbursed at the pump.

**[718] Gleim #: 10.1.8 -- Source: CIA 1190 II-19**

Which of the following engagement techniques would be most persuasive in determining that significant inventory values on the books of an acquiree are accurately stated?

- A. Obtain a management representation letter stating that inventory values are correctly stated.
- B. Flowchart the inventory and warehousing cycle and form an opinion based on the quality of internal controls.
- C. Conduct a physical inventory and bring in an independent expert if necessary to value inventory items.
- D. Interview purchasing and materials control personnel to ascertain the quality of internal controls over inventory.

**[719] Gleim #: 10.1.9 -- Source: CIA 1193 I-10**

Cash receipts should be deposited on the day of receipt or the following business day. Select the most appropriate engagement procedure to determine that cash is promptly deposited.

- A. Review cash register tapes prepared for each sale.
- B. Review the functions of cash handling and maintaining accounting records for proper separation of duties.
- C. Compare the daily cash receipts totals with the bank deposits.
- D. Review the functions of cash receiving and disbursing for proper separation of duties.

**[720] Gleim #: 10.1.10 -- Source: CIA 593 II-19**

One of the engagement objectives of a financial audit of the organization's accounts receivable function is to determine whether prescribed standard procedures are followed when credit is granted. Which of the following engagement procedures will produce the most reliable information?

- A. Ask management of the credit department if specific policies and procedures are followed when granting credit.
- B. Select a statistical sample of credit applications and test them for conformance with prescribed procedures.
- C. Analytically review the relationships between trends in credit sales and bad debts.
- D. Review procedures for periodically aging accounts receivable.

**[721] Gleim #: 10.1.11 -- Source: CIA 588 I-13**

In a review of the accounting department's bank reconciliation unit, which of the following is an appropriate engagement procedure to test canceled checks for authorized signatures?

- A. Compare the check date with the first cancellation date.
- B. Determine that all checks are signed by individuals authorized by the board.
- C. Examine a representative sample of signed checks and determine that the signatures are authorized in the organization's signature book.
- D. Complete the tests of controls over check signatures in 4 hours.

**[722] Gleim #: 10.1.12 -- Source: CIA 588 II-23**

During an engagement to review the December 31, Year 2, accounts payable balance of a division, the internal auditor has received from the division controller's office a schedule listing the creditors and the amount owed to each at December 31, Year 2. Which of the following engagement procedures best determines that no individual account payable has been omitted from the schedule?

- A. Send confirmation requests to a randomly selected sample of creditors listed on the schedule.
- B. Send confirmation requests to creditors listed on the schedule that were not listed on the corresponding December 31, Year 1, schedule.
- C. Examine support for selected January Year 3 payments to creditors, ascertaining that those relating to Year 3 are not on the schedule.
- D. Examine support for selected January Year 3 payments to creditors, ascertaining that those relating to Year 2 are on the schedule.

**[723] Gleim #: 10.1.13 -- Source: CIA 588 I-24**

Which is the best engagement procedure to obtain information to support the legal ownership of real property?

- A. Examination of board resolutions with regard to approvals to acquire real property.
- B. Examination of closing documents, deeds, and ownership documents registered and on file in local government records.
- C. Discussion with the organization's legal counsel concerning the acquisition of a specific piece of property.
- D. Confirmation with the title company that handled the escrow account and disbursement of proceeds on the closing of the property.

**[Fact Pattern #17]**

The internal auditor of a construction enterprise that builds foundations for bridges and large buildings performed a review of the expense accounts for equipment (augers) used to drill holes in rocks to set the foundation for the buildings. During the review, the internal auditor noted that the expenses related to some of the auger accounts had increased dramatically during the year. The internal auditor inquired of the construction manager who offered the explanation that the augers last 2 to 3 years and are expensed when purchased. Thus, the internal auditor should see a decrease in the expense accounts for these augers in the next year but would expect an increase in the expenses of other augers. The internal auditor also found out that the construction manager is responsible for the inventorying and receiving of the augers and is a part owner of a business that supplies augers to the organization. The supplier was approved by the president to improve the quality of equipment.

**[724] Gleim #: 10.1.14 -- Source: CIA 1195 I-25**

(Refers to Fact Pattern #17)

Which of the following procedures would be the least appropriate engagement procedure to address these analytical observations?

- A. Note the explanation in the working papers for investigation during the next engagement and perform no further work at this time.
- B. Develop a comparative analysis of auger expense over the past few years to determine if the relationship held in previous years.
- C. Take a sample of debits to the auger expense account and trace to independent shipping documents and to invoices for the augers.
- D. Arrange to take an inventory of augers to determine if the augers purchased this year were on hand and would be available for use in the next 2 years.

**[725] Gleim #: 10.1.15 -- Source: CIA 597 I-43**

The internal auditors are evaluating the adequacy of the new policies and procedures in maintaining an appropriate risk profile. Which of the following engagement procedures is least relevant to the accomplishment of the engagement objective?

- A. Meet with operational management to determine its interpretation of those procedures that are not clear.
- B. Meet with senior management or a board member, if necessary, to clarify policy issues.
- C. Test a sample of investments for compliance with the new procedures.
- D. Review recent regulatory pronouncements to determine whether the new procedures are consistent with regulatory requirements.

**[Fact Pattern #18]**

A company maintains production data on personal computers, connected by a local area network (LAN), and uses the data to generate automatic purchases via electronic data interchange. Purchases are made from authorized vendors based on production plans for the next month and on an authorized materials requirements plan (MRP) which identifies the parts needed for each unit of production.

**[726] Gleim #: 10.1.16 -- Source: CIA 04 Model Exam I-94**

(Refers to Fact Pattern #18)

The production line has experienced shut-downs because needed production parts were not on hand. Which of the following audit procedures would best identify the cause of the parts shortages?

- A. Determine if access controls are sufficient to restrict the input of incorrect data into the production database.
- B. Use generalized audit software to develop a complete list of the parts shortages that caused each of the production shutdowns, and analyze this data.
- C. Select a random sample of parts on hand per the personal computer databases and compare with actual parts on hand.
- D. Select a random sample of production information for selected days and trace input into the production database maintained on the LAN.

**[727] Gleim #: 10.1.17 -- Source: CIA 04 Model Exam I-95**

(Refers to Fact Pattern #18)

Which of the following audit procedures would be most effective in determining if purchasing requirements have been updated for changes in production techniques?

- A. Recalculate parts needed based on current production estimates and the MRP for the revised production techniques. Compare these needs with purchase orders generated from the system for the same period.
- B. Develop test data to input into the LAN and compare purchase orders generated from test data with purchase orders generated from production data.
- C. Use generalized audit software to develop a report of excess inventory. Compare the inventory with current production volume.
- D. Select a sample of production estimates and MRPs for several periods and trace them into the system to determine that input is accurate.

**[728] Gleim #: 10.1.18 -- Source: CIA 1189 I-12**

To ascertain that all credit sales are recorded in accounts receivable, an internal auditor should

- A. Confirm selected accounts receivable balances by direct correspondence with customers.
- B. Vouch a sample of subsidiary ledger entries to related sales invoices and to related shipping documents.
- C. Compare a sample of customer purchase orders with related shipping documents.
- D. Trace a sample of shipping documents to related sales invoices and the subsidiary ledger.

**[729] Gleim #: 10.1.19 -- Source: CIA 04 Model Exam I-93**

Divisional management stated that a recent gross margin increase was due to increased efficiency in manufacturing operations. Which of the following audit procedures would be most relevant to that assertion?

- A. Obtain a physical count of inventory.
- B. Select a sample of products, then compare costs-per-unit this year to those of last year, test cost buildups, and analyze standard cost variances.
- C. Take a physical inventory of equipment to determine if there were significant changes.
- D. Select a sample of finished goods inventory and trace raw materials cost back to purchase prices in order to determine the accuracy of the recorded raw materials price.

**[730] Gleim #: 10.1.20 -- Source: CIA 1188 II-34**

One of the objectives of an inventory system audit is to determine whether merchandise levels are replenished on a timely basis. An appropriate audit procedure for this objective involves detailed testing of the

- A. Edit program that lists all quantities sold.
- B. Update program that creates new part numbers.
- C. Edit program that lists batch totals for shipments.
- D. Update program that creates new purchase orders.

**[731] Gleim #: 10.1.21 -- Source: CIA 595 I-41**

Observation is considered a reliable audit procedure, but one that is limited in usefulness. However, observation is used in a number of different audit situations. Which of the following statements is true regarding observation as an audit technique?

- A. Observation is the most effective audit methodology to use in filling out internal control questionnaires.
- B. Observation is the most persuasive methodology to learn how transactions are really processed during the period under audit.
- C. Observation is rarely sufficient to satisfy any audit assertion other than existence.
- D. Observation is the most persuasive audit technique for determining if fraud has occurred.

**[732] Gleim #: 10.1.22 -- Source: CIA 581 II-26**

An individual has been assigned to audit the maintenance department of an organization. Which of the following is likely to produce the least reliable audit evidence?

- A. Notes on discussions with mechanics in the maintenance operation.
- B. A schedule comparing actual maintenance expenses with budgeted expenses and those of the prior period and disclosing important differences.
- C. A narrative covering review of user reports on maintenance service.
- D. An analysis of changes in certain maintenance department ratios.

**[733] Gleim #: 10.1.23 -- Source: CIA 1196 I-2**

The auditor finds a situation in which one person has the ability to collect receivables, make deposits, issue credit memos, and record receipt of payments. The auditor suspects the individual may be stealing from cash receipts. Which of the following audit procedures will be most effective in discovering fraud in this scenario?

- A. Send positive confirmations to a random selection of customers.
- B. Send negative confirmations to all outstanding accounts receivable customers.
- C. Perform a detailed review of debits to customer discounts, sales returns, or other debit accounts, excluding cash posted to the cash receipts journal.
- D. Take a sample of bank deposits and trace the detail in each bank deposit back to the entry in the cash receipts journal.

**[734] Gleim #: 10.1.24 -- Source: CIA 1185 II-25**

A large university has relatively ineffective internal control. The university's auditor seeks assurance that all tuition revenue has been recorded. The auditor could best obtain the desired assurance by

- A. Confirming a sample of tuition payments with the students.
- B. Observing tuition payment procedures on a surprise basis.
- C. Comparing business office revenue records with registrar's office records of students enrolled.
- D. Preparing a year-end bank reconciliation.

**[735] Gleim #: 10.1.25 -- Source: CMA 686 3-18**

The most effective audit procedure for determining the collectibility of an account receivable is the

- A. Confirmation of the account.
- B. Examination of the related sales invoice(s).
- C. Review of the subsequent cash collections.
- D. Review of authorization of credit sales to the customer and the previous history of collections.

**[736] Gleim #: 10.1.26 -- Source: CIA 1193 II-24**

A firm has recently converted its purchasing cycle from a manual system to an online computer system. The internal auditor in charge of the first post-implementation audit of the new system has access to a generalized audit software package. One audit objective is to determine whether all material liabilities for trade accounts payable have been recorded. Which of the following is most useful in achieving this objective?

- A. A listing of all purchase transactions processed after the cutoff date.
- B. A listing of all accounts payable ledger accounts with a post office box given as the vendor mailing address.
- C. A listing of all duplicate purchase orders, receiving reports, and vendor invoices.
- D. A listing of all vendors with a debit balance in the accounts payable ledgers.

**[737] Gleim #: 10.1.27 -- Source: CIA 589 II-21**

In a payables application, checks are authorized and paid based on matching purchase orders, receiving reports, and vendor invoices. Partial payments are common. An appropriate audit procedure for verifying that a purchase order has not been paid twice is to sort the

- A. Receiving report file by purchase order, compute total amounts received by purchase order, compare total amounts received with purchase order amounts, and investigate any discrepancies between the total amounts received and purchase order amounts.
- B. Vendor invoice file by purchase order, compute total amounts invoiced by purchase order, compare total amounts invoiced with purchase order amounts, and investigate any discrepancies between the total amounts invoiced and purchase order amounts.
- C. Receiving report file by vendor invoice amounts and investigate any discrepancies between the total amounts received and vendor invoice amounts.
- D. Check register file by purchase order, compute total amounts paid by purchase order, compare total amounts paid with purchase order amounts, and investigate any discrepancies between the total amounts paid and purchase order amounts.

**[738] Gleim #: 10.1.28 -- Source: CIA 1187 I-9**

Using a wide variety of solicitation techniques, a large public charity raises funds for medical research from the general public. In an audit of donations, the internal auditor is least likely to use which of the following audit procedures?

- A. Written confirmation of a sample of direct mail pledges.
- B. Reconciliation of depository bank accounts.
- C. Surprise observation of door-to-door solicitation teams.
- D. Reconciliation of raffle tickets sold to amounts deposited in the bank.

**[Fact Pattern #19]**

The auditor of a construction company which builds foundations for bridges and large buildings performed a review of the expense accounts for equipment (augers) used to drill holes in rocks to set the foundation for the buildings. During the review, the auditor noted that the expenses related to some of the auger accounts had increased dramatically during the year. The auditor inquired of the construction manager who offered the explanation that the augers last two to three years and are expensed when purchased. Thus, the auditor should see a decrease in the expense accounts for these augers in the next year but would expect an increase in the expenses of other augers. The auditor also found out that the construction manager is responsible for the inventorying and receiving of the augers and is a part owner of a company that supplies augers to the company. The supplier was approved by the president of the company to improve the quality of equipment.

**[739] Gleim #: 10.1.29 -- Source: CIA 1195 I-25**

(Refers to Fact Pattern #19)

Which of the following procedures is the least appropriate engagement procedure to address these analytical observations?

- A. Note the explanation in the working papers for investigation during the next engagement and perform no further work at this time.
- B. Develop a comparative analysis of auger expense over the past few years to determine if the relationship held in previous years.
- C. Take a sample of debits to the auger expense account and trace to independent shipping documents and to invoices for the augers.
- D. Arrange to take an inventory of augers to determine if the augers purchased this year were on hand and would be available for use in the next 2 years.

**[Fact Pattern #20]**

The internal auditors of a financial institution are evaluating the institution's investing and lending activities. During the last year, the institution has adopted new policies and procedures for monitoring investments and the loan portfolio. The internal auditors know that the organization has invested in new types of financial instruments during the year and is heavily involved in the use of financial derivatives to hedge risks appropriately.

**[740] Gleim #: 10.1.30 -- Source: CIA 597 I-44**

(Refers to Fact Pattern #20)

The audit committee has expressed concern that the financial institution has been taking on higher-risk loans in pursuit of short-term profit goals. Which of the following engagement procedures provides the least amount of information to address this concern?

- A. Perform an analytical review of interest income as a percentage of the investment portfolio in comparison with a group of peer financial institutions.
- B. Take a random sample of loans made during the period and compare the riskiness of the loans with that of a random sample of loans made 2 years ago.
- C. Perform an analytical review that involves developing a chart to compare interest income plotted over the past 10 years.
- D. Develop a multiple-regression time-series analysis of income over the past 5 years including such factors as interest rate in the economy, size of loan portfolio, and dollar amount of new loans each year.

**[741] Gleim #: 10.1.31 -- Source: CIA 593 I-15**

An internal audit activity has stated an engagement objective of determining whether property, plant, and equipment employed in manufacturing are properly reflected in the accounting records. Which of the following approaches is likely to be most useful in meeting this objective?

- A. Interviewing members of the accounting department.
- B. Examining documentation concerning the cost of property, plant, and equipment used in the manufacturing process.
- C. Inspecting property, plant, and equipment used in the manufacturing process and tracing to the asset subsidiary ledger.
- D. Selecting items from the asset subsidiary ledger and recalculating depreciation.

**[Fact Pattern #21]**

Management of a telephone and cable television enterprise has requested an engagement to evaluate its service department. The department is responsible for handling all customer inquiries regarding telephone or cable performance and assigning staff personnel to fix the problem, installing new cable lines and hooking them up to the customer's home, selling complementary products such as designer telephones, selling complementary services such as premium cable television services, and additional telephone services such as call-waiting, three-line hookup, etc.

Management is very customer oriented and has a policy that 95% of customer complaints or inquiries must be fully addressed to the customer's satisfaction within 24 hours of receiving the call. All customer service inquiries that require a service technician must be logged in by the responding service agent. Although the department exists to handle customer needs, it is also viewed by management as a profit center. All revenue is generated from the sale of complementary services or equipment and from service revenue. The department has been in existence for only three years and management has not developed a mechanism to evaluate the department's performance. However, management is concerned that the department might not be meeting management's goals.

During the preliminary planning, the following information is gathered.

<u>Preliminary Information</u>	<u>Current Year (19X3)</u>	<u>Prev. Year (19X2)</u>	<u>Prior Year (19X1)</u>
Number of complaints logged	37,500	35,000	34,000
Number of service calls at customer locations	10,080	10,000	8,640
Number of customers	1,250,000	1,100,000	1,000,000
Service call revenue	\$510,000	\$500,000	\$432,000
Sales of complementary services or equipment	\$6,250,000	\$4,400,000	\$3,750,000
No. of Support Staff	7	7	5
No. of Technicians	7	7	6
Total Service Department Costs	\$1,344,000	\$1,275,000	\$1,056,000

**[742] Gleim #: 10.1.32 -- Source: CIA 595 I-19**

(Refers to Fact Pattern #21)

If the data are correct, which of the following conclusions reached by the internal auditor is justified?

- I. The rate of customer complaints logged is decreasing.
- II. The number of service calls made at customer locations seems to be more closely related to the number of technicians than the number of customer complaints.
- III. The average sale of complementary services has remained about the same per customer.

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

**[743] Gleim #: 10.1.33 -- Source: CIA 595 I-20**

(Refers to Fact Pattern #21)

Based on the data, the internal auditor can justifiably conclude that

- I. Total revenue is increasing more rapidly than is total cost.
- II. The service department is more efficient because revenue has increased dramatically in the current year.
- III. The service department is more efficient because revenue has increased by a greater percentage than the increase in costs in the current year.
- IV. The service department has excess capacity because 11 total staff members serviced 1,000,000 customers. Thus, 14 total staff members should be able to service more than 1,250,000 customers.

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

**[744] Gleim #: 10.1.34 -- Source: CIA 595 I-21**

(Refers to Fact Pattern #21)

The best engagement procedure to determine whether the organization is meeting its objective of satisfying 95% of customer inquiries within 24 hours is to

- A. Select an attribute sample from the population of logged-in customer complaints and trace to records indicating its disposition, noting time and nature of disposition.
- B. Develop a customer satisfaction survey and send it to all customers, and include a question about the timeliness of service.
- C. Develop a customer satisfaction survey and send it to a statistically selected sample of customers based on mean-per-unit sampling and ask them to identify the time it took for the service department to satisfactorily address their problem. Calculate a mean and standard deviation.
- D. Select a mean-per-unit statistical sample from the total population base and trace the sample to the customer complaint log to determine whether or not 95% of the sample had their complaints addressed within 24 hours.

**[745] Gleim #: 10.1.35 -- Source: CIA 595 I-22**

(Refers to Fact Pattern #21)

The internal auditor wishes to investigate whether the number of service calls is based more on the number of service technicians than on the number of complaints that actually merit service. The following are four engagement procedures that would be performed in sequence. Indicate when the internal auditor should have sufficient information to reach a conclusion on the assertion.

- Step 1: Perform an analytical review by comparing the number of service calls per service technician and determine the average number of calls per year by technician.
- Step 2: Obtain the customer complaint backlog file and determine the extent to which there is a backlog of service complaints that need to be addressed. Calculate an average number of backlogged complaints per technician.
- Step 3: Send a confirmation to all customers who are shown on the backlog of complaints requesting information on the length of time for the backlog.
- Step 4: Based on the customer's response in step 3, calculate an average number of backlog complaints and determine the number of new service technicians that would have to be added to address the complaints.

The engagement assertion will be sufficiently addressed when the following steps are completed.

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

**[Fact Pattern #22]**

An organization has grown rapidly and has just automated its human resource system. The organization has developed a large database that tracks employees, employee benefits, payroll deductions, job classifications, ethnic code, age, insurance, medical protection, and other similar information. Management has asked the internal audit activity to review the new system.

**[746] Gleim #: 10.1.36 -- Source: CIA 1196 I-35**

(Refers to Fact Pattern #22)

To test whether data currently within the automated system are correct, the internal auditor should



- A. Use test data and determine whether all the data entered are captured correctly in the updated database.
- B. Take a sample of data to be entered for a few days and trace the data to the updated database to determine the correctness of the updates.
- C. Use generalized audit software to provide a print-out of all employees with invalid job descriptions. Investigate the causes of the problems.
- D. Use generalized audit software to select a sample of employees from the database, and verify the data fields.

**[747] Gleim #: 10.1.37 -- Source: CIA 589 I-9**

Which of the following is the primary advantage of using an internal control questionnaire?

- A. The questionnaire provides a clear picture of the interrelationships that exist between the various controls.
- B. The questionnaire reduces the risk of overlooking important aspects of the system.
- C. The questionnaire forces an internal auditor to acquire a full understanding of the system.
- D. The negative responses indicate the only areas needing further engagement work.

**[748] Gleim #: 10.1.38 -- Source: CIA 1193 I-11**

Select the appropriate population from which to draw a sample when the engagement objective is to evaluate compliance with controls designed to ensure that all shipments are billed.

- A. Prenumbered customer invoices.
- B. Customer accounts receivable.
- C. Prenumbered shipping documents.
- D. Cash receipts records.

**[749] Gleim #: 10.1.39 -- Source: CIA 1193 I-9**

During the year-end physical inventory process, the internal auditor observed items of significant value staged in the shipping area and marked "Sold -- Do Not Inventory." The customer had been on credit hold for 3 months because of bankruptcy proceedings, but the sales manager had ordered the shipping supervisor to treat the inventory as sold for physical inventory purposes. The internal auditor noted the terms of sale were FOB Warehouse. After confirming no change in organizational policy, the internal auditor should

- A. Recommend that the inventory staged in the shipping area be counted and included along with the rest of the physical inventory results.
- B. Make test counts and trace the results to appropriate records to ensure that the cost is properly relieved from inventory.
- C. Follow up with appropriate procedures to ensure that the inventory staged in the shipping area appears on related invoicing documentation.
- D. Request copies of the signed bills of lading to include with working papers for this physical inventory.

**[750] Gleim #: 10.1.40 -- Source: CIA 596 I-15**

A manufacturer's inventory includes a significant investment in precious metals. The internal auditors' review of management's system of internal controls over these items most likely includes

- I. Reviewing procedures to ensure that the value of the materials is properly stated on the balance sheet.
- II. Reviewing materials acquisition forms for approvals and tracing release forms to perpetual inventory records to verify that inventory is issued upon proper authorization.
- III. Observing inventory transactions to ascertain if materials thefts are occurring.
- IV. Reviewing the manufacturing department's system for comparing the usage of these metals with standards.

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

**[Fact Pattern #23]**

The internal audit activity has been assigned to perform an engagement involving a division. Based on background review, the internal auditor knows the following about management policies:

- Organizational policy is to rapidly promote divisional managers who show significant success. Thus, successful managers rarely stay at a division for more than 3 years.
- A significant portion of division management's compensation comes in the form of bonuses based on the division's profitability.

The division was identified by senior management as a turnaround opportunity. The division is growing but is not scheduled for a full audit by the external auditors this year. The division has been growing about 7% per year for the past 3 years and uses a standard cost system.

During the preliminary review, the internal auditor notes the following changes in financial data compared with the prior year:

- Sales have increased by 10%.
- Cost of goods sold has increased by 2%.
- Inventory has increased by 15%.
- Divisional net profit has increased by 8%.

**[751] Gleim #: 10.1.41 -- Source: CIA 595 I-46**

(Refers to Fact Pattern #23)

If the internal auditor decides that significant problems exist in the standard cost system, the next procedure to perform is to

- A. Interview divisional management to determine why the standard cost system has not been updated on a timely basis.
- B. Select a random sample of products and review the standard cost buildup by tracing purchases to the standard cost record.
- C. Use generalized audit software to prepare a listing of gross margin by product by comparing standard cost with sales price. Select all high gross margin items for further investigation.
- D. Schedule all variances and determine their source and their disposition, i.e., whether they are allocated to inventory or cost of goods sold.

**[752] Gleim #: 10.1.42 -- Source: IIA, adapted**

Questions used to interrogate individuals suspected of fraud should

- A. Adhere to a predetermined order.
- B. Cover more than one subject or topic.
- C. Move from the general to the specific.
- D. Direct the individual to a desired answer.

**[753] Gleim #: 10.1.43 -- Source: CIA 594 II-16**

Checklists used to assess risk have been criticized for all of the following reasons except

- A. Providing a false sense of security that all relevant factors are addressed.
- B. Inappropriately implying equal weight to each item on the checklist.
- C. Decreasing the uniformity of data acquisition.
- D. Being incapable of translating the experience or sound reasoning intended to be captured by each item on the checklist.

**[754] Gleim #: 10.2.44 -- Source: CIA 1193 I-44**

A code of conduct was developed several years ago and distributed by a large financial institution to all its officers and employees. What is the internal auditor's best approach to providing the board with the highest level of comfort about the code of conduct?

- A. Fully evaluate the comprehensiveness of the code and compliance with it and report the results to the board.
- B. Fully evaluate organizational practices for compliance with the code, and report to the board.
- C. Review employee activities for compliance with provisions of the code, and report to the board.
- D. Perform tests on various employee transactions to detect potential violations of the code of conduct.

**[755] Gleim #: 10.2.45 -- Source: CIA 1193 I-45**

A primary purpose of establishing a code of conduct within a professional organization is to

- A. Reduce the likelihood that members of the profession will be sued for substandard work.
- B. Ensure that all members of the profession perform at approximately the same level of competence.
- C. Promote an ethical culture among professionals who serve others.
- D. Require members of the profession to exhibit loyalty in all matters pertaining to the affairs of their organization.

**[756] Gleim #: 10.2.46 -- Source: CIA 1193 II-44**

An accounting association established a code of ethics for all members. What is one of the association's primary purposes of establishing the code of ethics?

- A. To outline criteria for professional behavior to maintain standards of integrity and objectivity.
- B. To establish standards to follow for effective accounting practice.
- C. To provide a framework within which accounting policies could be effectively developed and executed.
- D. To outline criteria that can be used in conducting interviews of potential new accountants.

**[757] Gleim #: 10.2.47 -- Source: CIA 1193 II-46**

A review of an organization's code of conduct revealed that it contained comprehensive guidelines designed to inspire high levels of ethical behavior. The review also revealed that employees were knowledgeable of its provisions. However, some employees still did not comply with the code. What element should a code of conduct contain to enhance its effectiveness?

- A. Periodic review and acknowledgment by all employees.
- B. Employee involvement in its development.
- C. Public knowledge of its contents and purpose.
- D. Provisions for disciplinary action in the event of violations.

**[758] Gleim #: 10.2.48 -- Source: CIA 1196 I-16**

In analyzing the differences between two recently merged businesses, the chief audit executive of Organization A notes that it has a formal code of ethics and Organization B does not. The code of ethics covers such things as purchase agreements, relationships with vendors, and other issues. Its purpose is to guide individual behavior within the firm. Which of the following statements regarding the existence of the code of ethics in A can be logically inferred?

- I. A exhibits a higher standard of ethical behavior than does B.
  - II. A has established objective criteria by which an individual's actions can be evaluated.
  - III. The absence of a formal code of ethics in B would prevent a successful review of ethical behavior in that organization.
- A. I and II.
  - B. II only.
  - C. III only.
  - D. II and III.

**[759] Gleim #: 10.2.49 -- Source: CIA 590 I-43**

The best reason for establishing a code of conduct within an organization is that such codes

- A. Are typically required by governments.
- B. Express standards of individual behavior for members of the organization.
- C. Provide a quantifiable basis for personnel evaluations.
- D. Have tremendous public relations potential.

**[760] Gleim #: 10.2.50 -- Source: CIA 593 II-42**

Which of the following statements is not appropriate to include in a manufacturer's conflict of interest policy? An employee shall not

- A. Accept money, gifts, or services from a customer.
- B. Participate (directly or indirectly) in the management of a public agency.
- C. Borrow from or lend money to vendors.
- D. Use organizational information for private purposes.

**[761] Gleim #: 10.2.51 -- Source: CIA 1190 I-46**

The code of ethics of a professional organization sets forth

- A. Broad standards of conduct for the members of the organization.
- B. The organizational details of the profession's governing body.
- C. A list of illegal activities that are proscribed to the members of the profession.
- D. A basis for the measurement of internal audit performance.

**[762] Gleim #: 10.3.52 -- Source: CIA 596 I-17**

In applying the Rules of Conduct set forth in The IIA Code of Ethics, internal auditors are expected to

- A. Not be unduly influenced by their own interests in forming judgments.
- B. Compare them with standards of other professions.
- C. Be guided by the desires of the engagement client.
- D. Use discretion in deciding whether to use them.

**[763] Gleim #: 10.3.53 -- Source: CIA 596 I-70**

The IIA Rules of Conduct set forth in The IIA Code of Ethics

- A. Describe behavior norms expected of internal auditors.
- B. Are guidelines to assist internal auditors in dealing with engagement clients.
- C. Are interpreted by the Principles.
- D. Apply only to particular conduct specifically mentioned.

**[764] Gleim #: 10.3.54 -- Source: CIA 592 II-49**

The IIA Code of Ethics requires internal auditors to perform their work with

- A. Honesty, diligence, and responsibility.
- B. Timeliness, sobriety, and clarity.
- C. Knowledge, skills, and competencies.
- D. Punctuality, objectivity, and responsibility.

**[765] Gleim #: 10.3.55 -- Source: CIA 1196 I-32**

Which of the following is permissible under The IIA Code of Ethics?

- A. Disclosing confidential, engagement-related, information that is potentially damaging to the organization in response to a court order.
- B. Using engagement-related information in a decision to buy an ownership interest in the employer organization.
- C. Accepting an unexpected gift from an employee whom the internal auditor has praised in a recent engagement communication.
- D. Not reporting significant observations and recommendations about illegal activity to the board because management has indicated it will address the issue.

**[766] Gleim #: 10.3.56 -- Source: CIA 589 II-45**

An internal auditor, working for a chemical manufacturer, believed that toxic waste was being dumped in violation of the law. Out of loyalty to the organization, no information regarding the dumping was collected. The internal auditor

- A. Violated the Code of Ethics by knowingly becoming a party to an illegal act.
- B. Violated the Code of Ethics by failing to protect the well-being of the general public.
- C. Did not violate the Code of Ethics. Loyalty to the employer in all matters is required.
- D. Did not violate the Code of Ethics. Conclusive information about wrongdoing was not gathered.

**[767] Gleim #: 10.3.57 -- Source: CIA 1190 II-47**

An internal auditor discovered some material inefficiencies in a purchasing function. The purchasing manager is the internal auditor's next-door neighbor and best friend. In accordance with The IIA Code of Ethics, the internal auditor should

- A. Objectively include the facts of the case in the engagement communications.
- B. Not report the incident because of loyalty to the friend.
- C. Include the facts of the case in a special communication submitted only to the friend.
- D. Not report the friend unless the activity is illegal.

**[768] Gleim #: 10.3.58 -- Source: CIA 596 I-61**

The chief audit executive (CAE) has been appointed to a committee to evaluate the appointment of the external auditors. The engagement partner for the external accounting firm wants the CAE to join her for a week of hunting at her private lodge. The CAE should

- A. Accept, assuming both their schedules allow it.
- B. Refuse on the grounds of conflict of interest.
- C. Accept as long as it is not charged to employer time.
- D. Ask the comptroller whether accepting the invitation is a violation of the organization's code of ethics.

**[769] Gleim #: 10.3.59 -- Source: CIA 1196 I-43**

An internal auditor for a large regional bank was asked to serve on the board of directors of a local bank. The bank competes in many of the same markets as the regional bank but focuses more on consumer financing than on business financing. In accepting this position, the internal auditor

- I. Violates The IIA Code of Ethics because serving on the board may be in conflict with the best interests of the internal auditor's employer
- II. Violates The IIA Code of Ethics because the information gained while serving on the board of directors of the local bank may influence recommendations regarding potential acquisitions

- A. I only.
- B. II only.
- C. I and II.
- D. Neither I nor II.

**[770] Gleim #: 10.3.60 -- Source: CIA 1186 II-45**

Which of the following concurrent occupations could appear to subvert the ethical behavior of an internal auditor?

- A. Internal auditor and a well-known charitable organization's local in-house chairperson.
- B. Internal auditor and part-time business insurance broker.
- C. Internal auditor and adjunct faculty member of a local business college that educates potential employees.
- D. Internal auditor and landlord of multiple housing that publicly advertises for tenants in a local community newspaper listing monthly rental fees.

**[771] Gleim #: 10.3.61 -- Source: CIA 1190 II-45**

Internal auditors should be prudent in their relationships with persons and organizations external to their employers. Which of the following activities will most likely not adversely affect internal auditors' ethical behavior?

- A. Accepting compensation from professional organizations for consulting work.
- B. Serving as consultants to competitor organizations.
- C. Serving as consultants to suppliers.
- D. Discussing engagement plans or results with external parties.

**[772] Gleim #: 10.3.62 -- Source: CIA 1195 I-52**

An internal auditor has been assigned to an engagement at a foreign subsidiary. The internal auditor is aware that the social climate of the country is such that “facilitating payments” (bribes) are an accepted part of doing business. The internal auditor has completed the engagement and has found significant weaknesses relating to important controls. The subsidiary’s manager offers the internal auditor a substantial “facilitating payment” to omit the observations from the final engagement communication with a provision that the internal auditor could revisit the subsidiary in 6 months to verify that the problem areas have been properly addressed. The internal auditor should

- A. Not accept the payment because such acceptance is in conflict with the Code of Ethics.
- B. Not accept the payment, but omit the observations as long as a verification visit is made in 6 months.
- C. Accept the offer because it is consistent with the ethical concepts of the country in which the subsidiary is doing business.
- D. Accept the payment because it has the effect of doing the greatest good for the greatest number; the internal auditor is better off, the subsidiary is better off, and the organization is better off because there is strong motivation to correct the deficiencies.

**[773] Gleim #: 10.3.63 -- Source: CIA 588 I-48**

An internal auditor engages in the preparation of income tax forms during the tax season. For which of the following activities will the internal auditor most likely be in violation of The IIA Code of Ethics?

- A. Writing a tax guide intended for publication and sale to the general public.
- B. Preparing the personal tax return, for a fee, for one of the organization’s division managers.
- C. Teaching an evening tax seminar, for a fee, at a local university.
- D. Preparing tax returns for elderly citizens, regardless of their associations, as a public service.

**[774] Gleim #: 10.3.64 -- Source: CIA 1188 II-47**

An internal auditing team has made observations and recommendations that should significantly improve a division’s operating efficiency. Out of appreciation of this work, and because it is the holiday season, the division manager presents the in-charge internal auditor with a gift of moderate value. Which of the following best describes the action prescribed by The IIA Code of Ethics?

- A. Not accept it prior to submission of the final engagement communication.
- B. Not accept it if the gift is presumed to impair the internal auditor’s judgment.
- C. Not accept it, regardless of other circumstances, because its value is significant.
- D. Accept it, regardless of other circumstances, because its value is insignificant.

**[775] Gleim #: 10.3.65 -- Source: CIA 597 I-64**

A CIA is working in a noninternal-auditing position as the director of purchasing. The CIA signed a contract to procure a large order from the supplier with the best price, quality, and performance. Shortly after signing the contract, the supplier presented the CIA with a gift of significant monetary value. Which of the following statements regarding the acceptance of the gift is true?

- A. Acceptance of the gift is prohibited only if it is not customary.
- B. Acceptance of the gift violates The IIA Code of Ethics and is prohibited for a CIA.
- C. Because the CIA is no longer acting as an internal auditor, acceptance of the gift is governed only by the organization’s code of conduct.
- D. Because the contract was signed before the gift was offered, acceptance of the gift does not violate either The IIA Code of Ethics or the organization’s code of conduct.

**[776] Gleim #: 10.3.66 -- Source: CIA 1196 I-6**

In some countries, governmental units have established audit standards. For example, in the United States, the Government Accountability Office has developed standards for the conduct of governmental audits, particularly those that relate to compliance with government grants. In performing governmental grant compliance audits, the auditor should

- A. Be guided only by the governmental standards.
- B. Be guided only by The IIA Standards because they are more encompassing.
- C. Be guided by the more general standards that have been issued by the public accounting profession.
- D. Follow both The IIA Standards and any additional governmental standards.

**[777] Gleim #: 10.3.67 -- Source: CIA 1193 II-45**

An organization has recently placed a former operating manager in the position of chief audit executive (CAE). The new CAE is not a member of The IIA and is not a CIA. Henceforth, the internal audit activity will be run strictly by the CAE's standards, not The IIA's. All four staff internal auditors are members of The IIA, but they are not CIAs. According to The IIA Code of Ethics, what is the best course of action for the staff internal auditors?

- A. The Code does not apply because they are not CIAs.
- B. They should comply with the Standards for the Professional Practice of Internal Auditing.
- C. They must respect the legitimate and ethical objectives of the organization and ignore the Standards.
- D. They must resign their jobs to avoid improper activities.

**[778] Gleim #: 10.3.68 -- Source: CIA 1195 I-54**

A new staff internal auditor was told to perform an engagement in an area with which the internal auditor was not familiar. Because of time constraints, no supervision was provided. The assignment represented a good learning experience, but the area was clearly beyond the internal auditor's competence. Nonetheless, the internal auditor prepared comprehensive working papers and communicated the results to management. In this situation,

- A. The internal audit activity violated the Standards by hiring an internal auditor without proficiency in the area.
- B. The internal audit activity violated the Standards by not providing adequate supervision.
- C. The chief audit executive has not violated The IIA Code of Ethics because it does not address supervision.
- D. The Standards and The IIA Code of Ethics were followed by the internal audit activity.

**[779] Gleim #: 10.3.69 -- Source: CIA 594 I-66**

Which situation most likely violates The IIA Code of Ethics and the Standards?

- A. The chief audit executive (CAE) disagrees with the engagement client about the observations and recommendations in a sensitive area. The CAE discusses the detail of the observations and the proposed recommendations with a fellow CAE from another organization.
- B. An organization's charter for the internal audit activity requires the chief audit executive (CAE) to present the yearly engagement work schedule to the board for its approval and suggestions.
- C. The engagement manager has removed the most significant observations and recommendations from the final engagement communication. The in-charge internal auditor opposed the removal, explaining that (s)he knows the reported conditions exist. The in-charge internal auditor agrees that, technically, information is not sufficient to support the observations, but management cannot explain the conditions, and the observations are the only reasonable conclusions.
- D. Because the internal audit activity lacks skill and knowledge in a specialty area, the chief audit executive (CAE) has hired an expert. The engagement manager has been asked to review the expert's approach to the assignment. Although knowledgeable about the area under review, the manager is hesitant to accept the assignment because of lack of expertise.

**[780] Gleim #: 10.3.70 -- Source: CIA 597 I-70**

Which of the following situations is a violation of The IIA Code of Ethics?

- A. An internal auditor was ordered to testify in a court case in which a merger partner claimed to have been defrauded by the internal auditor's organization. The internal auditor divulged confidential information to the court.
- B. An internal auditor for a manufacturer of office products recently completed an engagement to evaluate the marketing function. Based on this experience, the internal auditor spent several hours one Saturday working as a paid consultant to a hospital in the local area that intended to conduct an engagement to evaluate its marketing function.
- C. An internal auditor gave a speech at a local IIA chapter meeting outlining the contents of a program the internal auditor had developed for engagements relating to electronic data interchange (EDI) connections. Several internal auditors from major competitors were in the audience.
- D. During an engagement, an internal auditor learned that the organization was about to introduce a new product that would revolutionize the industry. Because of the probable success of the new product, the product manager suggested that the internal auditor buy an additional interest in the organization, which the internal auditor did.

**[781] Gleim #: 10.3.71 -- Source: CIA 592 I-47**

During the course of an engagement, an internal auditor discovers that a clerk is embezzling funds from the organization. Although this is the first embezzlement ever encountered and the organization has a security department, the internal auditor decides to interrogate the suspect. If the internal auditor is violating The IIA Code of Ethics, the rule violated is most likely

- A. Failing to exercise due diligence.
- B. Lack of loyalty to the organization.
- C. Lack of competence in this area.
- D. Failing to comply with the law.

**[782] Gleim #: 10.3.72 -- Source: CIA 1186 II-48**

Which of the following actions taken by a chief audit executive (CAE) could be considered professionally ethical under The IIA Code of Ethics?

- A. The CAE decides to delay an engagement at a branch so that his nephew, the branch manager, will have time to "clean things up."
- B. To save organizational resources, the CAE cancels all staff training for the next 2 years on the basis that all staff are too new to benefit from training.
- C. To save organizational resources, the CAE limits procedures at foreign branches to confirmations from branch managers that no major personnel changes have occurred.
- D. The CAE refuses to provide information about organizational operations to his father, who is a part owner.

**[783] Gleim #: 10.3.73 -- Source: CIA 597 I-34**

During an examination of grants awarded by a nonprofit organization, an internal auditor discovered a number of grants made without the approval of the grant authorization committee (which includes outside representatives), as required by the organization's charter. All the grants, however, were approved and documented by the president. The chair of the grant authorization committee, who is also a member of the board of directors, proposes that the committee meet and retroactively approve all the grants before the engagement communication is issued. If the committee meets and approves the grants before such issuance, the internal auditor should

- A. Not report the grants in question because they were approved before the issuance of the engagement communication.
- B. Discuss the matter with the chair of the grant committee to determine the rationale for not approving the grants earlier. If the grants are routine, discussion of the grant committee's inaction should be omitted from the engagement communication.
- C. Include the items in the communication as an override of the organization's controls. Details about each grant should be reported, and the internal auditor should investigate further for fraud.
- D. Report the override of control to the board.

**[784] Gleim #: 10.3.74 -- Source: CIA 1192 I-49**

A chief audit executive (CAE) learned that a staff internal auditor provided confidential information to a relative. Both the CAE and staff internal auditor are CIAs. Although the internal auditor did not benefit from the transaction, the relative used the information to make a significant profit. The most appropriate way for the CAE to deal with this problem is to



- A. Verbally reprimand the internal auditor.
- B. Summarily discharge the internal auditor and notify The IIA.
- C. Take no action because the internal auditor did not benefit from the transaction.
- D. Inform the Institute's Board of Directors and take the personnel action required by organizational policy.

**[785] Gleim #: 10.3.75 -- Source: CIA 596 I-68**

In a review of travel and entertainment expenses, a certified internal auditor questioned the business purposes of an officer's reimbursed travel expenses. The officer promised to compensate for the questioned amounts by not claiming legitimate expenses in the future. If the officer makes good on the promise, the internal auditor

- A. Can ignore the original charging of the non-business expenses.
- B. Should inform the tax authorities in any event.
- C. Should still include the finding in the final engagement communication.
- D. Should recommend that the officer forfeit any frequent flyer miles received as part of the questionable travel.

**[786] Gleim #: 10.3.76 -- Source: CIA 597 I-66**

An internal auditor, nearly finished with an engagement, discovers that the director of marketing has a gambling habit. The gambling issue is not directly related to the existing engagement, and the internal auditor is under pressure to complete it quickly. The internal auditor notes the problem and passes the information on to the chief audit executive but does no further follow-up. The internal auditor's actions

- A. Are in violation of The IIA Code of Ethics for withholding meaningful information.
- B. Are in violation of the Standards because the internal auditor did not properly follow up on a red flag that might indicate the existence of fraud.
- C. Are not in violation of either The IIA Code of Ethics or the Standards.
- D. Are in violation of The IIA Code of Ethics for withholding meaningful information and are in violation of the Standards because the internal auditor did not properly follow up on a red flag that might indicate the existence of fraud.

**[787] Gleim #: 10.3.77 -- Source: CIA 588 II-46**

An engagement at a foreign subsidiary disclosed payments to local government officials in return for orders. What action does The IIA Code of Ethics suggest for an internal auditor in such a case?

- A. Refrain from any action that might be detrimental to the organization.
- B. Report the incident to appropriate regulatory authorities.
- C. Inform appropriate organizational officials.
- D. Report the practice to the board of The Institute of Internal Auditors.

**[788] Gleim #: 10.3.78 -- Source: CIA 1196 I-33**

During an engagement, an employee with whom you have developed a good working relationship informs you that she has some information about senior management that is damaging to the organization and may concern illegal activities. The employee does not want her name associated with the release of the information. Which of the following actions is considered to be inconsistent with The IIA Code of Ethics and the Standards?

- A. Assure the employee that you can maintain her anonymity and listen to the information.
- B. Suggest that the employee consider talking to legal counsel.
- C. Inform the employee that you will attempt to keep the source of the information confidential and will look into the matter further.
- D. Inform the employee of other methods of communicating this type of information.

**[789] Gleim #: 10.3.79 -- Source: CIA 1192 II-47**

The chief audit executive is aware of a material inventory shortage caused by internal control deficiencies at one manufacturing plant. The shortage and related causes are of sufficient magnitude to affect the external auditor's report. Based on The IIA Code of Ethics, what is the CAE's most appropriate course of action?

- A. Say nothing; guard against interfering with the independence of the external auditors.
- B. Discuss the issue with management and take appropriate action to ensure that the external auditors are informed.
- C. Inform the external auditors of the possibility of a shortage but allow them to make an independent assessment of the amount.
- D. Communicate the shortages to the board and allow them to communicate it to the external auditor.

**[790] Gleim #: 10.3.80 -- Source: CIA 595 I-53**

During an engagement performed at a manufacturing division of a defense contractor, the internal auditor discovered that the organization apparently was inappropriately adding costs to a cost-plus governmental contract. The internal auditor discussed the matter with senior management, which suggested that the internal auditor seek an opinion from legal counsel. Upon review, legal counsel indicated that the practice was questionable but was not technically in violation of the government contract. Based on legal counsel's decision, the internal auditor decided to omit any discussion of the practice in the final engagement communication sent to senior management and the board. However, the internal auditor did informally communicate legal counsel's decision to senior management. Did the internal auditor violate The IIA's Code of Ethics?

- A. No. The internal auditor followed up the matter with appropriate personnel within the organization and reached a conclusion that no fraud was involved.
- B. No. If a fraud is suspected, it should be resolved at the divisional level where it is taking place.
- C. Yes. It is a violation because all important information, even if resolved, should be reported to the board.
- D. Yes. Internal legal counsel's opinion is not sufficient. The internal auditor should have sought advice from outside legal counsel.

**[791] Gleim #: 10.3.81 -- Source: CIA 595 I-43**

Which of the following most likely constitutes a violation of The IIA Code of Ethics?

- A. Auditor A has accepted an assignment to perform an engagement at the electronics manufacturing division. Auditor A has recently joined the internal audit activity. But Auditor A was senior auditor for the external audit of that division and has audited many electronics organizations during the past 2 years.
- B. Auditor B has been assigned to perform an engagement at the warehousing function 6 months from now. Auditor B has no expertise in that area but accepted the assignment anyway. Auditor B has signed up for continuing professional education courses in warehousing that will be completed before the assignment begins.
- C. Auditor C is content as an internal auditor and has come to look at it as a regular 9-to-5 job. Auditor C has not engaged in continuing professional education or other activities to improve effectiveness during the last 3 years. However, Auditor C feels performance of quality work is the same as before.
- D. Auditor D discovered an internal financial fraud during the year. The books were adjusted to properly reflect the loss associated with the fraud. Auditor D discussed the fraud with the external auditor when the external auditor reviewed working papers detailing the incident.

**[792] Gleim #: 10.3.82 -- Source: CIA 590 II-43**

Through an engagement performed at the credit department, the chief audit executive (CAE) became aware of a material misstatement of the year-end accounts receivable balance. The external auditors have completed their engagement without detecting the misstatement. What should the CAE do in this situation?

- A. Inform the external auditors of the misstatement.
- B. Report the misstatement to management when the external auditors present a report.
- C. Exclude the misstatement from the final engagement communication because the external auditors are responsible for expressing an opinion on the financial statements.
- D. Perform additional engagement procedures on accounts receivable balances to benefit the external auditors.

**[793] Gleim #: 10.3.83 -- Source: CIA 1195 I-53**

An internal auditor has uncovered facts that could be interpreted as indicating unlawful activity on the part of an engagement client. The internal auditor decides not to inform senior management and the board of these facts because of lack of proof. The internal auditor, however, decides that, if questions are raised regarding the omitted facts, they will be answered fully and truthfully. In taking this action, the internal auditor

- A. Has not violated The IIA Code of Ethics or the Standards because confidentiality takes precedence over all other standards.
- B. Has not violated The IIA Code of Ethics or the Standards because the internal auditor is committed to answering all questions fully and truthfully.
- C. Has violated The IIA Code of Ethics because unlawful acts should have been reported to the appropriate regulatory agency to avoid potential “aiding and abetting” by the internal auditor.
- D. Has violated the Standards because the internal auditor should inform the appropriate authorities in the organization if fraud may be indicated.

**[794] Gleim #: 10.3.84 -- Source: CIA 589 I-44**

Internal auditors who fail to maintain their proficiency through continuing education could be found to be in violation of

- A. *The International Standards for the Professional Practice of Internal Auditing.*
- B. The IIA’s Code of Ethics.
- C. Both the Standards for the Professional Practice of Internal Auditing and The IIA’s Code of Ethics.
- D. None of the answers are correct.

**[795] Gleim #: 10.3.85 -- Source: CIA 1195 I-51**

Today’s internal auditor will often encounter a wide range of potential ethical dilemmas, not all of which are explicitly addressed by The IIA’s Code of Ethics. If the internal auditor encounters such a dilemma, the internal auditor should always

- A. Seek counsel from an independent attorney to determine the personal consequences of potential actions.
- B. Apply and uphold the principles embodied in The IIA Code of Ethics.
- C. Seek the counsel of the board before deciding on an action.
- D. Act consistently with the code of ethics adopted by the organization even if such action is not consistent with The IIA’s Code of Ethics.

**[796] Gleim #: 10.3.86 -- Source: CIA 04 Model Exam I-91**

Which of the following fraudulent entries is most likely to be made to conceal the theft of an asset?

- A. Debit expenses, and credit the asset.
- B. Debit the asset, and credit another asset account.
- C. Debit revenue, and credit the asset.
- D. Debit another asset account, and credit the asset.

**[Fact Pattern #24]**

The chief audit executive (CAE) of a mid-sized internal audit activity (IAA) was concerned that management might outsource the internal auditing function. Thus, the CAE adopted a very aggressive program to promote the IAA within the organization. The CAE planned to present the results to senior management and the board and recommend modification of the IAA's charter after using the new program. The following lists six actions the CAE took to promote a positive image within the organization:

1. Engagement assignments concentrated on efficiency. The engagements focused solely on cost savings, and each engagement communication highlighted potential costs to be saved. Negative observations were omitted. The focus on efficiency was new, but the engagement clients seemed very happy.
2. Drafts of all engagement communications were carefully reviewed with the engagement clients to get their input. Their comments were carefully considered when developing the final engagement communication.
3. The information technology internal auditor participated as part of a development team to review the control procedures to be incorporated into a major computer application under development.
4. Given limited resources, the engagement manager performed a risk assessment to establish engagement work schedule priorities. This was a marked departure from the previous approach of ensuring that all operations are evaluated on at least a three-year interval.
5. To save time, the CAE no longer required that a standard internal control questionnaire be completed for each engagement.
6. When the internal auditors found that the engagement client had not developed specific criteria or data to evaluate operations, the internal auditors were instructed to perform research, develop specific criteria, review the criteria with the engagement client, and if acceptable, use them to evaluate the engagement client's operations. If the engagement client disagreed with the criteria, a negotiation took place until acceptable criteria could be agreed upon. The engagement communication commented on the engagement client's operations in conjunction with the agreed-upon criteria.

**[797] Gleim #: 10.3.87 -- Source: CIA 595 I-36**

(Refers to Fact Pattern #24)

Which of the following elements of Action 1 taken by the CAE would be considered inappropriate?

- I. The type of engagements was changed before modifying the IAA's charter and going to the audit committee.
- II. Negative observations were omitted from the engagement communications.
- III. Cost savings and recommendations were highlighted in the engagement communication.

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

**[798] Gleim #: 10.3.88 -- Source: CIA 1184 II-21**

In complying with The IIA Code of Ethics, an internal auditor should

- A. Use individual judgment in the application of the principles set forth in the Code.
- B. Respect and contribute to the objectives of the organization even if it is engaged in illegal activities.
- C. Go beyond the limitation of personal technical skills to advance the interest of the organization.
- D. Primarily apply the competency principle in establishing trust.

**[799] Gleim #: 10.3.89 -- Source: CIA 1187 II-50**

An internal auditor has been assigned to an engagement to evaluate a possible acquisition. Coincidentally, a significant portion of this internal auditor's personal investment portfolio is composed of the target organization's stock. What is the internal auditor's preferable course of action in this situation based on The IIA Code of Ethics?

- A. Acquaint the chief audit executive with the situation and ask to be assigned to another audit.
- B. Acquaint the chief audit executive with the situation and offer assurance that it will have no impact on objectivity.
- C. Proceed with the audit because the personal investments are not an issue.
- D. Proceed with the audit because the investment is insignificant relative to the whole of the target company's stock.

**[800] Gleim #: 10.3.90 -- Source: CIA 591 II-5**

Under The IIA Code of Ethics, an entity that provides internal auditing services is specifically required to

- A. Maintain certain predetermined staffing requirements for engagements.
- B. Comply with the International Standards for the Professional Practice of Internal Auditing.
- C. Comply with organizational policy.
- D. Participate in a formal continuing education program.

**[801] Gleim #: 10.3.91 -- Source: CIA 585 I-15**

Which of the following situations is a violation of The IIA Code of Ethics?

- A. An internal auditor, with the knowledge and consent of management, accepted a token gift from a customer of the organization that was not presumed to impair and did not impair judgment.
- B. Knowing that management was aware of the situation, an internal auditor purposely left a description of an unlawful practice out of the final engagement communication.
- C. An internal auditor shared techniques with internal auditors from another organization.
- D. Based upon knowledge of the probable success of the employer's business, an internal auditor invested in a mutual fund that specialized in the same industry.

**[802] Gleim #: 10.3.92 -- Source: CIA 597 I-10**

During the course of an engagement, an internal auditor discovered that a research and development employee has been patenting new developments that are unrelated to the basic business of the organization. The organization does not have a specific policy addressing patents on developments that are not related to its basic business, but it has a general policy that all important new discoveries by employees are the property of the organization. The employee is considered one of the most prestigious in the field. The employee's actions have been condoned by local management as an extra incentive to keep the employee at the lab. A decision not to report the employee's action is

- A. A violation of The IIA Code of Ethics.
- B. A violation of the reporting requirements in the Standards.
- C. Justified because divisional management is aware of the practice, and it is not in violation of organizational policies.
- D. Both a violation of The IIA Code of Ethics AND a violation of the reporting requirements in the Standards.

**[803] Gleim #: 10.3.93 -- Source: CIA 1190 II-48**

Which of the following actions could be construed as a violation of The IIA Code of Ethics?

- A. Failing to report to management information that would be material to management's judgment.
- B. Expressing an opinion on internal financial statements.
- C. Turning a case over to the security department when an internal auditor suspects fraud but has no proof.
- D. Including an internal control problem in a final engagement communication, when it has been corrected prior to completion of the engagement.

**[804] Gleim #: 10.3.94 -- Source: CIA 593 I-45**

During an engagement, an internal auditor learned that certain individuals in the organization were involved in industrial espionage for the benefit of the organization. According to The IIA Code of Ethics, what is the internal auditor's proper course of action?

- A. Report the facts to the appropriate individuals within the organization.
- B. No action is required because this condition is not detrimental to the organization.
- C. Note the condition in the working papers but refrain from reporting it because it benefits the organization.
- D. Report the condition to the appropriate governmental regulatory agency.

**[805] Gleim #: 10.3.95 -- Source: CIA 1184 I-40**

Which of the following activities of an internal auditor is most likely to be acceptable under The IIA Code of Ethics?

- A. Late arrivals and early departures from work because this practice is common in the organization.
- B. Frequent luncheons and other socializing with major suppliers of the organization without the consent of senior management.
- C. Conducting an unrelated business outside of office hours.
- D. Acceptance of a material gift from a supplier.

**[806] Gleim #: 10.3.96 -- Source: CIA 588 II-50**

Which of the following most likely constitutes a violation of The IIA Code of Ethics by an internal auditor?

- A. Discussing at a trade convention the organization's controls over its computer networks.
- B. Purchasing stock in a target entity after overhearing an executive's discussion of a possible acquisition.
- C. Deleting sensitive information from a final engagement communication at the request of senior management.
- D. Investigating executive expense reports based completely on rumors of padding.

**[807] Gleim #: 10.3.97 -- Source: Publisher**

The IIA Code of Ethics does not require

- A. Contribution to the legitimate and ethical objectives of the organization.
- B. Objectivity, honesty, and diligence.
- C. Continual improvement in proficiency.
- D. A report on each engagement.

**[808] Gleim #: 10.3.98 -- Source: Publisher**

The IIA Code of Ethics incorporates by reference which of the following rules?

- A. Duty to disclose all material facts when reporting on activities.
- B. Performance with proficiency and due professional care.
- C. Prudent and lawful use of information.
- D. No acceptance of anything that may impair professional judgment.

**[809] Gleim #: 10.3.99 -- Source: Publisher**

Why does The IIA Code of Ethics in Rule of Conduct 4.2 require that due professional care be used in obtaining information to support an engagement opinion?

- A. Sufficient, reliable, relevant, and useful information lends credibility to the opinion.
- B. To preclude any conflict of interest.
- C. To require honesty in performing work.
- D. If internal auditors were permitted to communicate engagement results without obtaining sufficient information, they would be in a position to accept fees or gifts from engagement clients.

**[810] Gleim #: 10.3.100 -- Source: Publisher**

An internal auditor is performing services in a division in which the chief financial officer is a close personal friend, and the internal auditor learns that the friend is to be replaced after a series of critical labor negotiations. The internal auditor relays this information to the friend. Has a violation of The IIA Code of Ethics occurred?

- A. No. The use of the confidential information resulted in no personal gain to the internal auditor.
- B. No. The internal auditor was just being honest with his/her friend.
- C. Yes. The internal auditor had a conflict of interest with the organization.
- D. Yes. The internal auditor was not prudent in the use of information acquired in the course of his/her duties.

**[811] Gleim #: 10.3.101 -- Source: Publisher**

Which situation is most likely a violation of The IIA Code of Ethics?

- A. Reporting apparent violations of antitrust statutes by chief executive officers to government regulators.
- B. Cooperating with the government's criminal investigation of the organization.
- C. Reporting apparent violations of antitrust statutes by chief executive officers to the audit committee of the board of directors.
- D. Immediately reporting a violent crime observed at work to local law enforcement agencies.

**[812] Gleim #: 10.3.102 -- Source: CIA 1189 I-45**

Which of the following items is a violation by an internal auditor of The IIA Code of Ethics?

- A. Certain facts recorded in the internal auditor's working papers that helped to support the basic allegations made by the internal auditor regarding a case of fraud were not included in the final engagement communication.
- B. Information in the internal auditor's working papers that proved a criminal act was included in the internal auditor's draft communication. The comments were later removed by internal audit management.
- C. To keep the engagement effort within the budgeted time, the internal auditor was directed to and did curtail testing in an area that looked suspicious and later was proved to contain massive irregularities.
- D. A control system that had been recommended by the internal audit staff during the previous engagement was found to be defective. The internal auditor reported the defective function as an engagement client failure.

**[813] Gleim #: 10.3.103 -- Source: CIA 590 I-45**

Which of the following actions by an internal auditor would violate The IIA Code of Ethics?

- A. Attendance at an educational program offered by an engagement client to all employees.
- B. Acceptance of airline tickets from an engagement client.
- C. Disclosure, in an engagement communication, of all material facts relevant to the area reviewed.
- D. Disposal of a small ownership interest in the organization prior to learning of a business downturn.

**[814] Gleim #: 10.3.104 -- Source: CIA 1190 I-48**

An internal auditor may receive which of the following without violating The IIA Code of Ethics?

- A. A pen received from the sales manager of a subsidiary with the imprinted name of the organization's product and a phone number.
- B. A dinner and baseball tickets from the manager of a department being reviewed. The tickets are usually made available to employees of that department.
- C. A dinner and baseball tickets from the manager of a department that has never been reviewed and for which there are no plans for a future engagement. The tickets are usually made available to employees of that department.
- D. A bottle of whiskey from the organization's treasurer.

**[815] Gleim #: 10.3.105 -- Source: CIA 1184 I-33**

In their reporting, internal auditors are required by The IIA Code of Ethics to

- A. Present sufficient factual information without revealing confidential matters that could be detrimental to the organization.
- B. Disclose all material information obtained by the auditor as of the date of the final engagement communication.
- C. Obtain factual information within the established time and budget parameters.
- D. Disclose material facts known to the internal auditor that could distort the final engagement communication if not revealed.

**[816] Gleim #: 10.3.106 -- Source: CIA 1187 II-48**

Which of the following actions by an internal auditor is most likely a violation of The IIA Code of Ethics?

- A. Accepting payment for teaching auditing at a local university.
- B. Having a material ownership interest in a competitor.
- C. Accepting a moderate gift from a customer of his/her organization.
- D. Allowing use of the Certified Internal Auditor designation in a context not involving his/her employment.

**[817] Gleim #: 10.3.107 -- Source: CIA 1194 I-57**

Which of the following is permissible under The IIA Code of Ethics?

- A. Disclosing confidential, engagement-related information that is potentially damaging to the organization in a court of law in response to a subpoena.
- B. Using engagement-related information in a decision to buy an ownership interest in the employer.
- C. Accepting an unexpected gift from an employee who was praised in a recent engagement communication.
- D. Not reporting significant observations about illegal activity to the audit committee because management has indicated it will handle the issue.

**[818] Gleim #: 10.3.108 -- Source: CIA 595 I-57**

An internal auditor, recently terminated by an organization due to downsizing, has found a job with another organization in the same industry. Which of the following disclosures made by the internal auditor to the new organization would constitute a violation of The IIA's Code of Ethics?

- A. The internal auditor used the risk assessment approach that was used by the internal auditor's former employer in determining priorities in the new job.
- B. The new internal audit activity does not use PPS sampling, and the internal auditor believes PPS sampling has advantages for many of the engagements conducted by the new employer. The internal auditor conducts training sessions and develops forms to implement sampling in the same manner as the previous employer.
- C. While at the previous firm, the internal auditor conducted a great deal of research to identify "best practices" for the management of the treasury function. Because most of the research was done at home and during non-office hours, the internal auditor retained much of the research and plans to use it in conducting a review of the treasury function at the new employer.
- D. None of the answers represent a violation of the Code.

**[819] Gleim #: 10.3.109 -- Source: Publisher**

In their communication of results, internal auditors are required by The IIA Code of Ethics to

- A. Obtain factual information within the established time and budget parameters.
- B. Reveal material facts that could distort communications if not revealed.
- C. Present sufficient factual information without revealing confidential information that could be detrimental to the organization.
- D. Disclose all material information obtained as of the date of the final engagement communication.

**[820] Gleim #: 10.3.110 -- Source: CIA, adapted**

Which of the following is permissible under The IIA Code of Ethics?

- A. In response to a subpoena, an auditor appeared in a court of law and disclosed confidential, audit-related information that could potentially damage the auditor's organization.
- B. An auditor used audit-related information in a decision to buy stock issued by the employer corporation.
- C. After praising an employee in a recent audit engagement communication, an auditor accepted a gift from the employee.
- D. An auditor did not report significant observations about illegal activity to the board because management indicated that it would resolve the issue.

**[821] Gleim #: 10.3.111 -- Source: CIA, adapted**

An internal auditor who encounters an ethical dilemma not explicitly addressed by The IIA Code of Ethics should always

- A. Seek counsel from an independent attorney to determine the personal consequences of potential actions.
- B. Take action consistent with the principles embodied in The IIA Code of Ethics.
- C. Seek the counsel of the audit committee before deciding on an action.
- D. Act consistently with the employing organization's code of ethics even if such action would not be consistent with The IIA Code of Ethics.



**[822] Gleim #: 10.4.112 -- Source: CIA 597 I-9**

After noting some red flags, an internal auditor has an increased awareness that fraud may be present. Which of the following best describes the internal auditor's responsibility?

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

**[823] Gleim #: 10.4.113 -- Source: CIA 590 I-47**

In the course of their work, internal auditors must be alert for fraud and other forms of white-collar crime. The important characteristic that distinguishes fraud from other varieties of white-collar crime is that

- A. Fraud encompasses an array of irregularities and illegal acts that involve intentional deception.
- B. Unlike other white-collar crimes, fraud is always perpetrated against an outside party.
- C. White-collar crime is usually perpetrated for the benefit of an organization, but fraud benefits an individual.
- D. White-collar crime is usually perpetrated by outsiders to the detriment of an organization, but fraud is perpetrated by insiders to benefit the organization.

**[824] Gleim #: 10.4.114 -- Source: CIA 597 I-57**

Which of the following statements is(are) true regarding the prevention of fraud?

- I. The primary means of preventing fraud is through internal control established and maintained by management.
  - II. Internal auditors are responsible for assisting in the prevention of fraud by examining and evaluating the adequacy of the internal control system.
  - III. Internal auditors should assess the operating effectiveness of fraud-related communication systems.
- A. I only.
  - B. I and II only.
  - C. II only.
  - D. I, II, and III.

**[825] Gleim #: 10.4.115 -- Source: Publisher**

The internal audit activity's responsibility for preventing fraud is to

- A. Establish internal control.
- B. Maintain internal control.
- C. Evaluate the system of internal control.
- D. Exercise operating authority over fraud prevention activities.

**[826] Gleim #: 10.4.116 -- Source: CIA 1194 I-10**

An internal auditor who suspects fraud should

- A. Determine that a loss has been incurred.
- B. Interview those who have been involved in the control of assets.
- C. Identify the employees who could be implicated in the case.
- D. Recommend an investigation after determining that fraud has occurred.

**[827] Gleim #: 10.4.117 -- Source: CIA 1192 I-50**

The internal auditors' responsibility regarding fraud includes all of the following except

- A. Determining whether the control environment sets the appropriate tone at top.
- B. Ensuring that fraud will not occur.
- C. Being aware of activities in which fraud is likely to occur.
- D. Evaluating the effectiveness of control activities.

**[828] Gleim #: 10.4.118 -- Source: CIA 1193 I-49**

A significant employee fraud took place shortly after an internal auditing engagement. The internal auditor may not have properly fulfilled the responsibility for the prevention of fraud by failing to note and report that

- A. Policies, practices, and procedures to monitor activities and safeguard assets were less extensive in low-risk areas than in high-risk areas.
- B. A system of control that depended upon separation of duties could be circumvented by collusion among three employees.
- C. There were no written policies describing prohibited activities and the action required whenever violations are discovered.
- D. Divisional employees had not been properly trained to distinguish between bona fide signatures and cleverly forged ones on authorization forms.

**[829] Gleim #: 10.4.119 -- Source: CIA 591 II-50**

In an organization with a separate division that is primarily responsible for the prevention of fraud, the internal audit activity is responsible for

- A. Examining and evaluating the adequacy and effectiveness of that division's actions taken to prevent fraud.
- B. Establishing and maintaining that division's system of internal control.
- C. Planning that division's fraud prevention activities.
- D. Controlling that division's fraud prevention activities.

**[830] Gleim #: 10.4.120 -- Source: CIA 590 I-50**

When conducting fraud investigations, internal auditors should

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

**[831] Gleim #: 10.4.121 -- Source: CIA 04 Model Exam I-88**

The manager of a production line has the authority to order and receive replacement parts for all machinery that requires periodic maintenance. The internal auditor received an anonymous tip that the manager ordered substantially more parts than were necessary from a family member in the parts supply business. The unneeded parts were never delivered. Instead, the manager processed receiving documents and charged the parts to machinery maintenance accounts. The payments for the undelivered parts were sent to the supplier, and the money was divided between the manager and the family member. Which of the following tests would best assist the auditor in deciding whether to investigate this anonymous tip further?

- A. Comparison of the current quarter's maintenance expense with prior-period activity.
- B. Physical inventory testing of replacement parts for existence and valuation.
- C. Analysis of repair parts charged to maintenance to review the reasonableness of the number of items replaced.
- D. Review of a test sample of parts invoices for proper authorization and receipt.

**[832] Gleim #: 10.4.122 -- Source: CIA 1184 I-17**

Which of the following gives the internal auditor the authority to investigate fraud?

- A. The Standards.
- B. Common law.
- C. Management.
- D. The Institute of Internal Auditors Code of Ethics.

**[833] Gleim #: 10.4.123 -- Source: CIA 593 I-47**

Internal auditors have a responsibility for helping to deter fraud. Which of the following best describes how this responsibility is usually met?

- A. By coordinating with security personnel and law enforcement agencies in the investigation of possible frauds.
- B. By testing for fraud in every engagement and following up as appropriate.
- C. By assisting in the design of control systems to prevent fraud.
- D. By evaluating the adequacy and effectiveness of controls in light of the potential exposure or risk.

**[834] Gleim #: 10.4.124 -- Source: CIA 594 I-14**

When an internal auditor identifies multiple factors that have been linked with possible fraudulent conditions, and suspects that fraud has taken place, the auditor should

- A. Immediately report to senior management and the board.
- B. Immediately report to the board.
- C. Notify the appropriate authorities within the organization and recommend an investigation.
- D. Extend tests to determine the extent of the fraud.

**[835] Gleim #: 10.4.125 -- Source: CIA 1193 II-47**

The internal audit activity has concluded a fraud investigation that revealed a previously undiscovered materially adverse impact on the financial position and results of operations for 2 years on which financial statements have already been issued. The chief audit executive should immediately inform

- A. The external auditing firm responsible for the financial statements affected by the discovery.
- B. The appropriate governmental or regulatory agency.
- C. Senior management and the board.
- D. The internal accounting function ultimately responsible for making corrective journal entries.

**[836] Gleim #: 10.4.126 -- Source: CIA 594 I-13**

Internal auditors are more likely to detect fraud by developing/strengthening their ability to

- A. Recognize and question changes that occur in organizations.
- B. Interrogate fraud perpetrators to discover why the fraud was committed.
- C. Develop internal controls to prevent the occurrence of fraud.
- D. Document computerized operating system programs.

**[837] Gleim #: 10.4.127 -- Source: CIA 589 II-46**

Which of the following wrongful acts committed by an employee constitutes fraud?

- A. Libel.
- B. Embezzlement.
- C. Assault.
- D. Harassment.

**[838] Gleim #: 10.4.128 -- Source: CIA 1189 I-46**

An internal auditor suspects that a mailroom clerk is embezzling funds. In exercising due professional care, the internal auditor should

- A. Reassign the clerk to another department.
- B. Institute stricter controls over mailroom operations.
- C. Inform the appropriate authorities in the organization.
- D. Confront the clerk with the auditor's suspicions.

**[839] Gleim #: 10.4.129 -- Source: CIA 1189 I-50**

An internal auditor's responsibility for reporting fraud includes

- A. Notifying management of fraud when the internal auditor has exhaustively reviewed all the data related to the fraud.
- B. Issuing a written report at the conclusion of the investigation and not sooner.
- C. Notifying management if fraud has been established to a reasonable certainty.
- D. Providing a draft of the report only to senior management.

**[840] Gleim #: 10.4.130 -- Source: CIA 590 II-50**

After completing an investigation, internal auditing has concluded that an employee has stolen a significant amount of cash receipts. A draft of the proposed communication on this observation should be submitted for review to

- A. Legal counsel.
- B. The board.
- C. The chief executive officer of the organization.
- D. The organization's outside auditors.

**[841] Gleim #: 10.4.131 -- Source: CIA 1184 I-17**

Which of the following gives the internal auditor the authority to investigate fraud?

- A. The Standards.
- B. Common law.
- C. Management.
- D. The Institute of Internal Auditors Code of Ethics.

**[842] Gleim #: 10.4.132 -- Source: CIA 1185 II-13**

An internal auditor's field work uncovers a series of transactions that indicate a possible embezzlement. Which of the following actions should the chief audit executive take?

- A. Confront the suspected embezzler to determine that the facts are correct.
- B. Review the finding with the suspect's fellow workers to see whether the workers can furnish additional evidence.
- C. Consult with security personnel.
- D. Discuss the case with the board.

**[843] Gleim #: 10.4.133 -- Source: CIA 587 I-49**

A preliminary report (oral or written) is issued following the detection phase of a fraud investigation. Such a report should

- A. Include the internal auditor's conclusion as to whether sufficient information exists to conduct an investigation.
- B. Identify the perpetrators of the fraud.
- C. Never include the observations that serve as the basis for the internal auditor's conclusion.
- D. Never be submitted to the board.

**[844] Gleim #: 10.4.134 -- Source: CIA 588 I-47**

A chief audit executive obtains factual documentation of unethical business dealings by the vice president in charge of internal auditing. The CAE should

- A. Conduct an investigation to determine the extent of the vice president's personal involvement in the unethical conduct.
- B. Confront the vice president with the information before proceeding.
- C. Schedule an engagement to review the involved business function.
- D. Report the facts to the chief executive officer and the audit committee.

**[845] Gleim #: 10.4.135 -- Source: CIA 1188 I-49**

A key feature that distinguishes fraud from other types of crime or impropriety is that fraud always involves the

- A. Violent or forceful taking of property.
- B. Deceitful wrongdoing of management-level personnel.
- C. Unlawful conversion of property that is lawfully in the custody of the perpetrator.
- D. False representation or concealment of a material fact.

**[846] Gleim #: 10.4.136 -- Source: CIA 1188 I-50**

Prior to issuing a final communication on a fraud investigation, the internal auditor should submit a proposed draft for review by the

- A. Organization's legal counsel.
- B. Engagement client's management.
- C. Organization's public relations department.
- D. Board.

**[847] Gleim #: 10.4.137 -- Source: CIA 589 I-46**

One factor that distinguishes fraud from other employee crimes is that fraud involves

- A. Intentional deception.
- B. Personal gain for the perpetrator.
- C. Collusion with a party outside the organization.
- D. Malicious motives.

**[848] Gleim #: 10.4.138 -- Source: CIA 589 I-49**

Which of the following describes one of the responsibilities of the internal auditor for the deterrence of fraud in an organization?

- A. Implementation of systems to discourage fraud.
- B. Prosecuting perpetrators of fraud.
- C. Reporting suspected fraud to law enforcement personnel.
- D. Evaluating the adequacy of controls to prevent fraud.

**[849] Gleim #: 10.4.139 -- Source: CIA 590 II-46**

Internal auditing is responsible for assisting in the prevention of fraud by

- A. Informing the appropriate authorities within the organization and recommending whatever investigation is considered necessary in the circumstances when wrongdoing is suspected.
- B. Establishing the organization's governance, operations, and information systems concerning compliance with laws, regulations, and contracts.
- C. Examining and evaluating the adequacy and the effectiveness of control, commensurate with the extent of the potential exposure or risk in the various segments of the organization's operations.
- D. Determining whether operating standards are acceptable and are being met.

**[Fact Pattern #25]**

An internal auditor is performing an operational engagement at a division and observes that an unusually large quantity of goods is on hand in the shipping and materials rework areas. The items are labeled as re-ship items. Upon inquiry the internal auditor is told that these are goods that have been returned by customers and have either been repaired and shipped back to the original customer or repaired and shipped out as new products because they are fully warranted.

**[850] Gleim #: 10.4.140 -- Source: CIA 1195 I-62**

(Refers to Fact Pattern #25)

Assume the internal auditor found that most of the goods were repaired and sold as new items. Such sales are both (1) against organizational policy and (2) against governmental regulations. The internal auditor does not know whether fraud was involved or the extent of divisional management's involvement in the scheme. The internal auditor should report the observations to

- A. Divisional management only because it is responsible for correcting the problem.
- B. Divisional management and relevant regulatory bodies.
- C. Divisional management, the board, and senior management.
- D. The board and senior management only.

**[851] Gleim #: 10.4.141 -- Source: CIA 1195 I-63**

(Refers to Fact Pattern #25)

Assume that subsequent investigation shows that previously issued financial statements were materially misstated due to the improper recognition of sales. The internal auditor's next step should be to

- A. Immediately inform the external auditor and the divisional manager.
- B. Inform divisional management of the preliminary observation, but wait until a formal engagement communication is issued to inform the board.
- C. Inform the external auditor, senior management, and the board.
- D. Inform senior management and the board.

**[852] Gleim #: 10.4.142 -- Source: IIA, adapted**

An auditor uncovers a plan to overstate inventory and thereby increase reported profits for a division. The auditor has substantial evidence that the divisional manager was aware of and approved the plan to overstate inventory. There is also some evidence that the manager may have been responsible for the implementation of the plan. The auditor should

- A. Continue to conduct interviews with subordinates until a definite case is made, and then report the case to the audit committee.
- B. Inform senior management and the audit committee of the findings and discuss possible further investigation.
- C. Inform the divisional manager of the auditor's suspicions and obtain the manager's explanation of the findings before pursuing the matter further.
- D. Document the case thoroughly and report the suspicions to the external auditor for further review.

**[853] Gleim #: 10.4.143 -- Source: IIA, adapted**

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

- A. Expand activities to determine whether an investigation is warranted.
- B. Report the possibility of fraud to senior management and ask how to proceed.
- C. Consult with external legal counsel to determine the course of action to be taken.
- D. Report the matter to the audit committee and request funding for outside specialists to help investigate the possible fraud.

**[854] Gleim #: 10.4.144 -- Source: IIA, adapted**

If an internal auditor is interviewing three individuals, one of whom is suspected of committing a fraud, which of the following is the least effective approach?

- A. Ask each individual to prepare a written statement explaining the individual's actions.
- B. Take the role of one seeking the truth.
- C. Listen carefully to what each interviewee has to say.
- D. Attempt to get the suspected individual to confess.

**[855] Gleim #: 10.5.145 -- Source: CIA 597 I-53**

Red flags are conditions that indicate a higher likelihood of fraud. Which of the following is not considered a red flag?

- A. Management has delegated the authority to make purchases under a certain value to subordinates.
- B. An individual has held the same cash-handling job for an extended period without any rotation of duties.
- C. An individual handling marketable securities is responsible for making the purchases, recording the purchases, and reporting any discrepancies and gains/losses to senior management.
- D. The assignment of responsibility and accountability in the accounts receivable department is not clear.

**[856] Gleim #: 10.5.146 -- Source: CIA 1195 I-50**

Internal auditors have been advised to consider red flags to determine whether management is involved in a fraud. Which of the following does not represent a difficulty in using the red flags as fraud indicators?

- A. Many common red flags are also associated with situations in which no fraud exists.
- B. Some red flags are difficult to quantify or to evaluate.
- C. Red flag information is not gathered as a normal part of an engagement.
- D. The red flags literature is not well enough established to have a positive impact on internal auditing.

**[857] Gleim #: 10.5.147 -- Source: CIA 593 I-46**

An internal auditor should be concerned about the possibility of fraud if

- A. Cash receipts, net of the amounts used to pay petty cash-type expenditures, are deposited in the bank daily.
- B. The monthly bank statement reconciliation is performed by the same employee who maintains the perpetual inventory records.
- C. The accounts receivable subsidiary ledger and accounts payable subsidiary ledger are maintained by the same person.
- D. One person, acting alone, has sole access to the petty cash fund (except for a provision for occasional surprise counts by a supervisor or auditor).

**[Fact Pattern #26]**

Randy and John had known each other for many years. They had become best friends in college, where they both majored in accounting. After graduation, Randy took over the family business from his father. His family had been in the grocery business for several generations. When John had difficulty finding a job, Randy offered him a job in the family store. John proved to be a very capable employee. As John demonstrated his abilities, Randy began delegating more and more responsibility to him. After a period of time, John was doing all of the general accounting and authorization functions for checks, cash, inventories, documents, records, and bank reconciliations. (1) *John was trusted completely and handled all financial functions.* No one checked his work.

Randy decided to expand the business and opened several new stores. (2) *Randy was always handling the most urgent problem ... crisis management is what his college professors had termed it.* John assisted with the problems when his other duties allowed him time.

Although successful at work, John had (3) *difficulties with personal financial problems.*

At first, the amounts stolen by John were small. John didn't even worry about making the accounts balance. But John became greedy. "How easy it is to take the money," he said. He felt that he was a critical member of the business team (4) *and that he contributed much more to the success of the company than was represented by his salary.* It would take two or three people to replace me, he often thought to himself. As the amounts became larger and larger, (5) *he made the books balance.* Because of these activities, John was able to purchase an expensive car and take his family on several trips each year. (6) *He also joined an expensive country club.* Things were changing at home, however. (7) *John's family observed that he was often argumentative and at other times very depressed.*

The fraud continued for 6 years. Each year the business performed more and more poorly. In the last year, the stores had a substantial net loss. Randy's bank required an audit. John confessed when he thought the auditors had discovered his embezzlements.

When discussing frauds, the pressures, opportunities, and rationalizations that cause/allow a perpetrator to commit the fraud are often identified. Symptoms of fraud are also studied.

**[858] Gleim #: 10.5.148 -- Source: CIA 594 I-48**

(Refers to Fact Pattern #26)

Number 1, "John was trusted completely . . ." is an example of a(n)

- A. Document symptom.
- B. Situational pressure.
- C. Opportunity to commit.
- D. Physical symptom.

**[859] Gleim #: 10.5.149 -- Source: CIA 594 I-49**

(Refers to Fact Pattern #26)

Number 2, "Randy was always handling the most urgent . . .," is an example of a(n)

- A. Opportunity to commit.
- B. Analytical symptom.
- C. Situational pressure.
- D. Rationalization.

**[860] Gleim #: 10.5.150 -- Source: CIA 594 I-50**

(Refers to Fact Pattern #26)

Number 3, "Difficulties with personal financial problems," is an example of a(n)

- A. Behavioral symptom.
- B. Situational pressure.
- C. Rationalization.
- D. Opportunity to commit.

**[861] Gleim #: 10.5.151 -- Source: CIA 594 I-51**

(Refers to Fact Pattern #26)

Number 4, "and that he contributed much more . . .," is an example of a

- A. Rationalization.
- B. Behavioral symptom.
- C. Situational pressure.
- D. Physical symptom.

**[862] Gleim #: 10.5.152 -- Source: CIA 594 I-52**

(Refers to Fact Pattern #26)

Number 5, "he made the books balance," is an example of a(n)

- A. Physical symptom.
- B. Analytical symptom.
- C. Lifestyle symptom.
- D. Document symptom.

**[863] Gleim #: 10.5.153 -- Source: CIA 594 I-53**

(Refers to Fact Pattern #26)

Number 6, "He also joined an expensive country club," is an example of a

- A. Rationalization.
- B. Lifestyle symptom.
- C. Behavioral symptom.
- D. Physical symptom.

**[864] Gleim #: 10.5.154 -- Source: CIA 594 I-54**

(Refers to Fact Pattern #26)

Number 7, "John's family observed that he was often argumentative . . .," is an example of a



- A. Rationalization.
- B. Lifestyle symptom.
- C. Behavioral symptom.
- D. Physical symptom.

**[865] Gleim #: 10.5.155 -- Source: CIA 593 II-45**

Which of the following policies is most likely to result in an environment conducive to the occurrence of fraud?

- A. Budget preparation input by the employees who are responsible for meeting the budget.
- B. Unreasonable sales and production goals.
- C. The division's hiring process frequently results in the rejection of adequately trained applicants.
- D. The application of some accounting controls on a sample basis.

**[866] Gleim #: 10.5.156 -- Source: CIA 594 I-11**

Internal auditors should have knowledge about factors (red flags) that have proven to be associated with management fraud. Which of the following factors have generally not been associated with management fraud?

- A. Generous performance-based reward systems.
- B. A domineering management.
- C. Regular comparison of actual results with budgets.
- D. A management preoccupation with increased financial performance.

**[867] Gleim #: 10.5.157 -- Source: CIA 1192 II-48**

Which of the following is an indicator of possible financial reporting fraud being perpetrated by management of a manufacturer?

- A. A trend analysis discloses (1) sales increases of 50% and (2) cost of goods sold increases of 25%.
- B. A ratio analysis discloses cost of goods sold is 50% of sales.
- C. A cross-sectional analysis of common size statements discloses (1) the firm's percentage of cost of goods sold to sales is 40% and (2) the industry average percentage of cost of goods sold to sales is 50%.
- D. A cross-sectional analysis of common size statements discloses (1) the firm's percentage of cost of goods sold to sales is 50% and (2) the industry average percentage of cost of goods sold to sales is 40%.

**[868] Gleim #: 10.5.158 -- Source: CIA 596 II-1**

A company, which has many branch stores, has decided to benchmark one of its stores for the purpose of analyzing the accuracy and reliability of branch store financial reporting. Which one of the following is the most likely measure to be included in a financial benchmark?

- A. High turnover of employees.
- B. High level of employee participation in setting budgets.
- C. High amount of bad debt write-offs.
- D. High number of suppliers.

**[869] Gleim #: 10.5.159 -- Source: CIA 594 I-12**

When comparing perpetrators who have embezzled an organization's funds with perpetrators of financial statement fraud (falsified financial statements), those who have falsified financial statements are less likely to

- A. Have experienced an autocratic management style.
- B. Be living beyond their obvious means of support.
- C. Rationalize the fraudulent behavior.
- D. Use organizational expectations as justification for the act.

**[870] Gleim #: 10.5.160 -- Source: CIA 1194 I-66**

The following are facts about a subsidiary:

1. The subsidiary has been in business for several years and enjoyed good profit margins although the general economy was in a recession, which affected competitors.
2. The working capital ratio has declined from a healthy 3:1 to 0.9:1.
3. Turnover for the last several years has included three controllers, two supervisors of accounts receivable, four payables supervisors, and numerous staff in other financial positions.
4. Purchasing policy requires three bids. However, the supervisor of purchasing at the subsidiary has instituted a policy of sole-source procurement to reduce the number of suppliers.

When conducting a financial audit of the subsidiary, the internal auditor should

- A. Most likely not detect 1., 2., or 3.
- B. Ignore 2. since the economy had a downturn during this period.
- C. Consider 3. to be normal turnover, but be concerned about 2. and 4. as warning signals of fraud.
- D. Consider 1., 2., 3., and 4. as warning signals of fraud.

**[871] Gleim #: 10.5.161 -- Source: CIA 04 Model Exam I-87**

The manager of a production line has the authority to order and receive replacement parts for all machinery that requires periodic maintenance. The internal auditor received an anonymous tip that the manager ordered substantially more parts than were necessary from a family member in the parts supply business. The unneeded parts were never delivered. Instead, the manager processed receiving documents and charged the parts to machinery maintenance accounts. The payments for the undelivered parts were sent to the supplier, and the money was divided between the manager and the family member. Which of the following internal controls would have most likely prevented this fraud from occurring?

- A. Establishing predefined spending levels for all vendors during the bidding process.
- B. Segregating the receiving function from the authorization of parts purchases.
- C. Comparing the bill of lading for replacement parts to the approved purchase order.
- D. Using the company's inventory system to match quantities requested with quantities received.

**[872] Gleim #: 10.5.162 -- Source: CIA 597 1-7**

Which of the following would indicate that fraud may be taking place in a marketing department?

- A. There is no documentation for some fairly large expenditures made to a new vendor.
- B. A manager appears to be living a lifestyle that is in excess of what could be provided by a marketing manager's salary.
- C. The control environment can best be described as "very loose." However, this attitude is justified by management on the grounds that it is needed for creativity.
- D. All of the answers are correct.

**[Fact Pattern #27]**

When an internal auditor followed up on a significant increase in maintenance supplies during the past year, a purchasing agent explained to the internal auditor that the primary reason for the increase was painting services and supplies. The internal auditor found a blanket purchase order without the normal bid or quote documentation. The blanket purchase order had been signed by the general manager and named the general manager's father as the sole contractor for painting services on the organization's projects. The auditor also found a number of large invoices, authorized for payment by the general manager, that showed the general manager's father as the person who signed for the receipt of the material at the supplier.

**[873] Gleim #: 10.5.163 -- Source: CIA 1193 II-49**

(Refers to Fact Pattern #27)

Which is not a symptom of fraud as described in this situation?

- A. Purchased material is not received by authorized organizational personnel.
- B. Routine controls are suspended for certain transactions.
- C. Purchased material is not delivered to a central location on the organization's premises.
- D. The use of blanket purchase orders.

**[874] Gleim #: 10.5.164 -- Source: CIA 1193 II-50**

(Refers to Fact Pattern #27)

What is the common indicator of fraud recognized by the internal auditor in this scenario?

- A. Analytical procedures revealed an extraordinary increase in account balances.
- B. Paint and supplies are being purchased for a contractor.
- C. The purchasing agent is selecting the contractor on the basis of a blanket purchase order.
- D. Invoices are being authorized for payment by the general manager.

**[Fact Pattern #28]**

Bank management suspects that a bank loan officer frequently made loans to fictitious entities, disbursed loan proceeds to personally established accounts, and then let the loans go into default. Some pertinent facts about the loan officer include

- A high standard of living, explained as the result of sound investments and not taking vacations,
- An expensive personal car obtained through business contacts,
- Gasoline and repair bills submitted for a car assigned by the bank that are higher than the organization's average (mileage logs were submitted on a quarterly basis), and
- Marked annoyance with questions from internal auditors.

**[875] Gleim #: 10.5.165 -- Source: CIA 593 II-46**

(Refers to Fact Pattern #28)

In this situation, typical indicators of the suspected fraud include all of the following except

- A. Not taking an annual vacation.
- B. Becoming easily annoyed with auditor inquiries about questionable loans.
- C. Explaining a high standard of living as the result of investments.
- D. Submitting gasoline and repair bills that are higher than company average.

**[876] Gleim #: 10.5.166 -- Source: CIA 593 II-47**

(Refers to Fact Pattern #28)

The most appropriate trend analysis to indicate this potential fraud is

- A. Loan default rates by loan officer.
- B. Accumulation of unpaid vacation days.
- C. Automobile operating expenses by loan officer.
- D. Total monetary volume of loans by loan officer.

**[877] Gleim #: 10.5.167 -- Source: CIA 1191 II-50**

An unexpected decrease in which of the following ratios could indicate that fictitious inventory has been recorded?

- A. Average collection period.
- B. Total asset turnover.
- C. Price-earnings.
- D. Current.

**[878] Gleim #: 10.5.168 -- Source: CIA 589 I-48**

Which of the following is an indicator of increased risk of fraud? The treasurer

- A. Takes all vacations and has just accepted a promotion to vice president of finance.
- B. Takes no vacations and has just accepted a promotion to vice president of finance.
- C. Takes all vacations and has refused promotion to vice president of finance.
- D. Takes no vacations and has refused promotion to vice president of finance.

**[879] Gleim #: 10.5.169 -- Source: CIA 590 I-48**

Internal auditors must exercise due professional care in order to meet their responsibilities for fraud detection. Thus, the existence of certain conditions should raise "red flags" and arouse internal auditors' professional skepticism concerning possible fraud. Which of the following is most likely to be considered an indication of possible fraud?

- A. A new management team installed as the result of a takeover.
- B. Rapid turnover of financial executives.
- C. Rapid expansion into new markets.
- D. A taxing authority's audit of tax returns.

**[880] Gleim #: 10.5.170 -- Source: CIA 1194 I-67**

An engagement had been scheduled by the chief audit executive to address unusual inventory shortages revealed in the annual physical inventory process at a large consumer goods warehouse operation. A cycle count program had been installed in the storeroom at the beginning of the year in place of the disruptive process of counting one entire product line at the end of each month. The cycle count program appeared effective because only nine minor adjustments had been made for the entire year on the several thousand different products located in the storeroom. The storeroom supervisor explained that each of the 15 stockroom personnel selected one item each day for cycle count based on how efficiently the item could be counted. The opportunity for control-related problems including fraud has been increased in the stockroom because

- A. Items for cycle count are selected by stockroom personnel.
- B. A cycle count program has been installed in place of a less efficient program.
- C. Only nine minor adjustments have been recorded as a result of the cycle count process.
- D. Stockroom personnel record cycle count information.

**[Fact Pattern #29]**

The internal audit activity has been assigned to perform an engagement involving a division. Based on background review, the internal auditor knows the following about management policies:

- Organizational policy is to rapidly promote divisional managers who show significant success. Thus, successful managers rarely stay at a division for more than 3 years.
- A significant portion of division management's compensation comes in the form of bonuses based on the division's profitability.

The division was identified by senior management as a turnaround opportunity. The division is growing but is not scheduled for a full audit by the external auditors this year. The division has been growing about 7% per year for the past 3 years and uses a standard cost system.

During the preliminary review, the internal auditor notes the following changes in financial data compared with the prior year:

- Sales have increased by 10%.
- Cost of goods sold has increased by 2%.
- Inventory has increased by 15%.
- Divisional net profit has increased by 8%.

**[881] Gleim #: 10.5.171 -- Source: CIA 595 I-44**

(Refers to Fact Pattern #29)

Which of the following items might alert the internal auditor to the possibility of fraud in the division?

- A. The division is not scheduled for an external audit this year.
- B. Sales have increased by 10%.
- C. A significant portion of management's compensation is directly tied to reported net profit of the division.
- D. All of the answers are correct.

**[Fact Pattern #30]**

An internal auditor is investigating the performance of a division with an unusually large increase in sales, gross margin, and profit.

**[882] Gleim #: 10.5.172 -- Source: CIA 1195 I-58**

(Refers to Fact Pattern #30)

Which of the following indicators is least likely to indicate the possibility of sales-related fraud in the division?

- A. A significant portion of divisional management's compensation is based on reported divisional profits.
- B. There is an unusually large amount of sales returns recorded after year-end.
- C. The internal auditor has taken a random sample of sales invoices but cannot locate a shipping document for a number of the sales transactions selected for November and December.
- D. One of the division's major competitors went out of business during the year.

**[883] Gleim #: 10.5.173 -- Source: IIA, adapted**

Which of the following is most likely to be considered an indication of possible fraud?

- A. The replacement of the management team after a hostile takeover.
- B. Rapid turnover of the organization's financial executives.
- C. Rapid expansion into new markets.
- D. A government audit of the organization's tax returns.

**[884] Gleim #: 10.5.174 -- Source: IIA, adapted**

Which of the following would not be considered a condition that indicates a higher likelihood of fraud?

- A. Management has delegated the authority to make purchases under a certain dollar limit to subordinates.
- B. An individual has held the same cash-handling job for an extended period without any rotation of duties.
- C. An individual handling marketable securities is responsible for making the purchases, recording the purchases, and reporting any discrepancies and gains or losses to senior management.
- D. The assignment of responsibility and accountability in the accounts receivable department is not clear.

**[885] Gleim #: 10.5.175 -- Source: IIA, adapted**

The most common motivation for management fraud is the existence of:

- A. Vices, such as a gambling habit.
- B. Job dissatisfaction.
- C. Financial pressures on the organization.
- D. The challenge of committing the perfect crime.

**[886] Gleim #: 10.5.176 -- Source: IIA, adapted**

Which of the following would indicate that fraud may be taking place in a marketing department?

- A. There is no documentation for some fairly large expenditures made to a new vendor.
- B. A manager appears to be living a lifestyle that is in excess of what could be provided by a marketing manager's salary.
- C. The control environment can best be described as "very loose." However, this attitude is justified by management on the grounds that it is needed for creativity.
- D. All of the answers are correct.

**[Fact Pattern #31]**

An international nonprofit organization finances medical research. The majority of its revenue and support comes from fund-raising activities, investments, and specific grants from an initial sponsoring corporation. The organization has been in operation over 15 years and has a small internal audit department. The organization has just finished a major fundraising drive that raised \$500 million for the current fiscal period.

The following are selected data from recent financial statements (dollar figures in millions):

	<u>Current Year</u>	<u>Past Year</u>
Revenue	\$500	\$425
Investments (average balances)	210	185
Medical research grants made	418	325
Investment income	16	20
Administrative expense	10	8

**[887] Gleim #: 10.5.177 -- Source: CIA 597 I-32**

(Refers to Fact Pattern #31)

Auditors must always be alert for the possibility of fraud. Assume the controls over each risk listed below are marginal. Which of the following possible frauds or misuses of organization assets should be considered the area of greatest risk?

- A. The president is using company travel and entertainment funds for activities that might be considered questionable.
- B. Purchases of supplies are made from fictitious vendors.
- C. Grants are made to organizations that might be associated with the president or are not for purposes dictated in the organization's charter.
- D. The payroll clerk has added ghost employees.

**[888] Gleim #: 10.6.178 -- Source: CIA 597 1-29**

Contributions to a nonprofit organization have been constant for the past 3 years. The audit committee has become concerned that the president may have embarked on a scheme in which some of the contributions from many sustaining members have been redirected to other organizations. The audit committee suspects that the scheme may involve taking major contributions and depositing them in alternative accounts or soliciting contributions to be made in the name of another organization. Which of the following procedures should be most effective in detecting the existence of such a fraud?

- A. Use generalized audit software to take a sample of pledged receipts not yet collected and confirm the amounts due with the donors.
- B. Take a sample that includes all large donors for the past 3 years and a statistical sample of others and request a confirmation of total contributions made to the organization or to affiliated organizations.
- C. Take a discovery sample of cash receipts and confirm the amounts of the receipts with the donors. Investigate any differences.
- D. Use analytical review procedures to compare contributions generated with those of other comparable institutions over the same period of time. If the amount is significantly less, take a detailed sample of cash receipts and trace to the bank statements.

**[889] Gleim #: 10.6.179 -- Source: CIA 597 1-40**

A production manager for a moderate-sized manufacturer began ordering excessive raw materials and had them delivered to a wholesale business that the manager was running on the side. The manager falsified receiving documents and approved the invoices for payment. Which of the following procedures is most likely to detect this fraud?

- A. Take a sample of cash disbursements; compare purchase orders, receiving reports, invoices, and check copies.
- B. Take a sample of cash disbursements and confirm the amount purchased, purchase price, and date of shipment with the vendors.
- C. Observe the receiving dock and count materials received; compare the counts with receiving reports completed by receiving personnel.
- D. Perform analytical tests, comparing production, materials purchased, and raw materials inventory levels; investigate differences.

**[Fact Pattern #32]**

Jane Jackson had been the regional sales manager for an organization for over 10 years. During this time, she had become very close friends with Frank Hansen, an internal audit manager. In addition to being neighbors, Jane and Frank had many of the same interests and belonged to the same tennis club. They trusted each other. Frank had helped Jane solve some sales problems, and Jane had given Frank some information that led to significant engagement observations during the past three engagements.

Below are selected analytical data from the organization that have led staff internal auditors to believe that there has been a financial statement fraud. The perpetrator appears to have falsified sales information for the past 2 years. Frank is concerned because he recently completed an engagement in the area and accepted Jane's explanation for differences in the analytical data. Frank is now certain that Jane is involved in the fraud.

	<u>Current Year</u>	<u>Last Year</u>	<u>-2 Year</u>	<u>-3 Year</u>	<u>-4 Year</u>
Percent increase in sales	10%	8%	6%	4%	5%
Inventory turnover	5	4	5	3.5	4
Gross margin percentage	54	49	42	39	40
Percent change in sales returns	8%	6%	3%	2.5%	3%

**[890] Gleim #: 10.6.180 -- Source: CIA 594 I-19**

(Refers to Fact Pattern #32)

Which combination of the following analytical data provides the strongest indication of the possibility of the fraud?

- A. Percentage increase in sales and inventory turnover.
- B. Gross margin percentage and change in sales returns.
- C. Inventory turnover and change in sales returns.
- D. Percentage increase in sales and gross margin percentage.

**[891] Gleim #: 10.6.181 -- Source: CIA 594 I-20**

(Refers to Fact Pattern #32)

The current dilemma in which Frank finds himself was least likely caused by

- A. Not rotating engagements every year.
- B. Accepting an engagement in an area where he was a close personal friend of management.
- C. Failing to select the appropriate analytical procedures.
- D. Accepting the response of management without additional testing.

**[892] Gleim #: 10.6.182 -- Source: CIA 1194 I-3**

The chief of an organization's security received an anonymous call accusing a marketing manager of taking kickbacks from a media outlet. Thus, the marketing department is on the list of possible engagement clients for the coming year. The internal audit activity is assigned responsibility for investigating fraud by its charter. If obtaining access to outside media outlet records and personnel is not possible, the best action an internal auditor could take to investigate the allegation of marketing kickbacks is to

- A. Search for unrecorded liabilities from media outlets.
- B. Obtain a list of approved media outlets.
- C. Develop a financial and behavioral profile of the suspect.
- D. Vouch any material past charge-offs of receivables.

**[Fact Pattern #33]**

During an engagement performed at a smaller division, the internal auditor notes the following regarding the purchasing function:

- There are three purchasing agents. Agent 1 is responsible for ordering all large component parts, agent 2 for electric motors, and agent 3 for smaller parts such as fasteners.
  - There are separate accounts payable and receiving departments.
  - In order to hold vendors more responsible, all invoices are sent to the purchasing agent placing the order. The purchasing agent matches the vendor invoice, receiving slip, and purchase order. If all match, the purchasing agent sends the documents forward to the accounts payable department. Differences are investigated by the purchasing agent.
  - Only the accounts payable department has the ability to authorize an item for payment.
  - All recorded receipts are immediately recorded into a perpetual inventory record by the department to which the goods are transferred after receipt.
- The internal auditor interviewed both management and the purchasing agents. Both groups were very satisfied with the current system because it helps maintain vendor accountability and provides sufficient segregation of duties given that only the accounts payable department can authorize an item for payment.

**[893] Gleim #: 10.6.183 -- Source: CIA 595 I-61**

(Refers to Fact Pattern #33)

Which of the following engagement procedures is most effective in determining whether material fraud was taking place?

- A. Take a random sample of cash disbursements and trace to approved purchase orders and receiving slips.
- B. Reconcile the perpetual inventory to the general ledger and investigate any differences.
- C. Take a random sample of purchase orders. Trace each purchase order to a receiving slip, vendor invoice, and approval by the accounts payable department.
- D. Perform an analytical review of inventory by product line to determine whether a particular product line has increased. Inquire of the purchasing agent as to the reason for the inventory increase.

**[894] Gleim #: 10.6.184 -- Source: CIA 595 I-62**

(Refers to Fact Pattern #33)

The internal auditor is responsible for evaluating internal control to determine whether it allows undetected fraud. Based on the information presented, the most likely undetected fraud, if any, is that the

- A. Purchasing agent is purchasing the majority of products from a favorite vendor because rotation among purchasing agents is not mandatory.
- B. Purchasing agent is sending fake purchase orders to a dummy vendor, inserting a receiving slip, and having payments made to the dummy vendor.
- C. Receiving department is diverting receipts to different locations and failing to create receiving reports.
- D. Production department is deflating the price of products purchased and thereby increasing the reported gross margin of sales.

**[895] Gleim #: 10.6.185 -- Source: CIA 595 I-63**

(Refers to Fact Pattern #33)

Which of the following controls, if properly implemented, is most likely to decrease the likelihood of fraud?

- A. Require periodic rotation of purchases among different vendors.
- B. Require rotation of duties among the three purchasing agents.
- C. Require that receiving reports be sent directly to accounts payable.
- D. Require that the updates to the perpetual inventory record be made by the receiving department.

**[896] Gleim #: 10.6.186 -- Source: CIA 1194 I-70**

During an engagement relating to purchasing, the internal auditor finds that the largest blanket purchase order is for tires, which are expensed as vehicle maintenance items. The fleet manager requisitions tires against the blanket order for the company's 400-vehicle service fleet based on a visual inspection of the cars and trucks in the parking lot each week. Sometimes the fleet manager picks up the tires but always signs the receiving report for payment. Vehicle service data are entered into a maintenance database by the mechanic after the tires are installed. What is the best course of action for the internal auditor in these circumstances?



- A. Determine whether the number of tires purchased can be reconciled to maintenance records.
- B. Count the number of tires on hand and trace them to the related receiving reports.
- C. Select a judgmental sample of requisitions and verify that each one is signed by the fleet manager.
- D. Compare the number of tires purchased under the blanket purchase order with the number of tires purchased in the prior year for reasonableness.

**[897] Gleim #: 10.6.187 -- Source: CIA 1193 I-48**

During a post-completion engagement related to a warehouse expansion, the internal auditor noted several invoices for redecorating services from a local merchant that were account-coded and signed for payment only by the cost engineer. The internal auditor should

- A. Compare the cost and description of the services with the account code used in the construction project and with related estimates in the construction-project budget.
- B. Consult with the cost engineer for assurance that these purchases were authorized for this construction project.
- C. Obtain a facsimile of the cost engineer's signature from the accounts payable group and compare it with the signature on the invoices.
- D. Recommend reclassifying the expenditure to the appropriate account code for redecorating services.

**[898] Gleim #: 10.6.188 -- Source: CIA 1194 I-69**

The internal auditor reviewed documentation showing that a customer had recently returned three expensive products to the regional service center for warranty replacement. The documentation also showed that the warranty clerk had rejected the claim and sent it to the customer's local distributor. The claim was rejected because the serial numbers listed in the warranty claim were not found in the computer's sales history file. Subsequently, the distributor supplied three different serial numbers, all of which were validated by the computer system, and the clerk completed the warranty claim for replacements. What is the best course of action for the internal auditor under the circumstances?

- A. Determine if the original serial numbers provided by the customer can be traced to other records, such as production and inventory records.
- B. Notify the appropriate authorities within the organization that there are sufficient indicators that a fraud has been committed.
- C. Verify with the appropriate supervisor that the warranty clerk had followed relevant procedures in the processing and disposition of this claim.
- D. Summarize this item along with other valid transactions in the internal auditor's test of warranty transactions.

**[899] Gleim #: 10.6.189 -- Source: CIA 1195 I-65**

The internal auditor suspects a disbursements fraud in which an unknown employee(s) is submitting and approving invoices for payment. Before discussing the potential fraud with management, the internal auditor decides to gather additional information. Which of the following procedures is most helpful in providing the additional information?

- A. Use software to develop a list of vendors with post office box numbers or other unusual features. Select a sample of those items and trace to supporting documents such as receiving reports.
- B. Select a sample of payments made during the year and investigate each one for approval.
- C. Select a sample of receiving reports representative of the period under investigation and trace to approved payment. Note any items not properly processed.
- D. Take a sample of invoices received during the past month, examine to determine whether properly authorized for payment, and trace to underlying documents.

**[900] Gleim #: 10.6.190 -- Source: CIA 595 I-68**

During an engagement, the internal auditor found a scheme in which the warehouse director and the purchasing agent for a retail organization diverted a significant amount of goods to their own warehouse, then sold the goods to third parties. The fraud was not noted earlier because the warehouse director forwarded receiving reports (after updating the perpetual inventory records) to the accounts payable department for processing. Which of the following procedures most likely led to the discovery of the missing materials and the fraud?

- A. Take a random sample of receiving reports and trace to the recording in the perpetual inventory record. Note differences and investigate by type of product.
- B. Take a random sample of purchase orders and trace them to receiving documents and to the records in the accounts payable department.
- C. Take an annual physical inventory, reconciling amounts with the perpetual inventory, noting the pattern of differences and investigating.
- D. Take a random sample of sales invoices and trace to the perpetual records to see if inventory was on hand. Investigate any differences.

**[901] Gleim #: 10.6.191 -- Source: CIA 1196 I-2**

The internal auditor finds a situation in which one person has the ability to collect receivables, make deposits, issue credit memos, and record receipt of payments. The internal auditor suspects the individual may be stealing from cash receipts. Which of the following engagement procedures is most effective in discovering fraud in this scenario?

- A. Send positive confirmations to a random selection of customers.
- B. Send negative confirmations to all outstanding accounts receivable customers.
- C. Perform a detailed review of debits to customer discounts, sales returns, or other debit accounts, excluding cash posted to the cash receipts journal.
- D. Take a sample of bank deposits and trace the detail in each bank deposit back to the entry in the cash receipts journal.

**[902] Gleim #: 10.6.192 -- Source: CIA 1196 I-63**

Management has requested that the internal auditor investigate the possibility that a purchasing agent is receiving kickbacks. Which of the following procedures is least effective in addressing management's concern?

- A. Confirm all contract terms with vendors.
- B. Analyze, by purchasing agent, all increases in cost of procured goods from specific vendors.
- C. Take a statistical sample of goods purchased and compare purchase prices for goods with those of other sources of similar goods, such as other organizations or catalogs.
- D. Observe any changes in the lifestyles or individual consumption habits of the purchasing agents involved.

**[903] Gleim #: 10.6.193 -- Source: CIA 1196 I-3**

While reviewing a division's accounts, an internal auditor becomes concerned that the division's management may have shipped poor quality merchandise to boost sales and profitability and thereby increase the manager's bonus. For this reason, the internal auditor suspects that returned goods are being shipped to other customers as new products without full correction of their defects. Which of the following engagement procedures is the least effective in determining whether such shipments took place?

- A. Examine credit memos issued after year-end for goods shipped before year-end.
- B. Physically observe the shipping and receiving area for information of returned goods.
- C. Interview customer service representatives regarding unusual amounts of customer complaints.
- D. Require the division to take a complete physical inventory at year-end, and observe the taking of the inventory.

**[904] Gleim #: 10.6.194 -- Source: CIA 1196 I-23**

An investment portfolio manager has the authority to use financial derivatives to hedge transactions but is not supposed to take speculative positions. However, the manager launches a scheme that includes (1) taking a position larger than required by the hedge, (2) putting the speculative gains in a suspense account, and (3) transferring the funds to a nonexistent broker and from there to a personal account. Which of the following engagement procedures is least effective in detecting this fraud?

- A. Examine individual trades to determine whether the trades violate the authorization limit for the manager.
- B. Sample individual trades and determine the exact matching of a hedge. Schedule and investigate all differences.
- C. Sample all debits to the suspense account and examine their disposition.
- D. Sample fund transfers to brokers and determine if the brokers are on the organization's authorized list for transactions.

**[905] Gleim #: 10.6.195 -- Source: CIA 1191 I-16**

When testing the year-end balance for trade accounts payable, the use of a software package to identify unauthorized vendors in a vendor database is most valuable in developing tests to determine

- A. Existence of valid recorded liabilities.
- B. Accuracy of the receiving cutoff used.
- C. Ownership of the recorded payables.
- D. Valuation of recorded transactions.

**[Fact Pattern #34]**

While performing analytical procedures related to an engagement involving a social services agency of a government entity, the internal auditor noted an unusually large increase in payments to individual recipients who are under the direction of a particular social worker in the agency.

**[906] Gleim #: 10.6.196 -- Source: CIA 595 I-65**

(Refers to Fact Pattern #34)

Which of the following engagement procedures is the best procedure to investigate this observation?

- A. Use generalized audit software to sort payments to recipients by social worker. Then sort the payments by common addresses and names.
- B. Implement an integrated test facility and monitor transactions throughout the year to identify unusual items.
- C. Implement the snapshot approach and tag transactions that are related to the social worker identified with the unusually large increases.
- D. Use generalized audit software to take a random sample of recipients and investigate by sending confirmations to them to determine whether they had received proper payments.

**[907] Gleim #: 10.6.197 -- Source: CIA 1196 I-19**

Two merging retail enterprises agree to share data on store operations. The data reveal that three stores in Organization A are characterized by:

- Significantly lower gross margins,
- Higher-than-average sales volume, and
- Higher levels of employee bonuses.

Assume the internal auditor for the merged enterprise concludes that inventory fraud is the most reasonable explanation of the observed data. Which of the following engagement procedures will provide the most persuasive information that fraud is taking place?

- A. Use an integrated test facility (ITF) to compare individual sales transactions with test transactions submitted through the ITF. Investigate all differences.
- B. Interview the three individual store managers to determine if their explanations about the observed differences are the same. Compare their explanations with those of the section manager.
- C. Schedule a surprise physical inventory. Investigate areas of inventory shrinkage.
- D. Take a sample of individual store prices and compare them with the sales entered on the cash register for the same items.

**[908] Gleim #: 10.6.198 -- Source: CIA 594 I-36**

An accounting clerk developed a scheme to enter fraudulent invoices into the computer system for nonexistent vendors. All the payments were sent to the same address. The internal auditor suspects a possible fraud. The internal auditor should test all of the vendor information rather than a sample of the vendor transactions because

- A. Although nonsampling error is reduced, sampling error is larger when computers are used to draw the sample.
- B. The engagement procedures used to compare vendor information require the reading of all records.
- C. The Standards prohibit the use of sampling if fraud is expected.
- D. The only effective approach requires performing procedures "through the computer."

**[909] Gleim #: 10.6.199 -- Source: CIA 597 I-11**

An internal auditor becomes concerned that fraud, in the form of payments to bogus entities, may exist. Buyers, who are responsible for all purchases for specific product lines, are able to approve expenditures up to \$50,000 without any other approval. Which of the following procedures would be most effective in addressing the internal auditor's concerns?

- A. Use generalized audit software to list all purchases over \$50,000 to determine whether the expenditures were properly approved.
- B. Develop a "snapshot" technique to trace all transactions by suspected buyers.
- C. Use generalized audit software to take a random sample of all expenditures under \$50,000 to determine whether the expenditures were properly approved.
- D. Use generalized audit software to list all major vendors by product line; select a sample of paid invoices to new vendors and examine information indicating that services or goods were received.

**[Fact Pattern #35]**

Bank management suspects that a bank loan officer frequently made loans to fictitious entities, disbursed loan proceeds to personally established accounts, and then let the loans go into default. Some pertinent facts about the loan officer include

- A high standard of living, explained as the result of sound investments and not taking vacations,
- An expensive personal car obtained through business contacts,
- Gasoline and repair bills submitted for a car assigned by the bank that are higher than the organization's average (mileage logs were submitted on a quarterly basis), and
- Marked annoyance with questions from internal auditors.

**[910] Gleim #: 10.6.200 -- Source: CIA 593 II-48**

(Refers to Fact Pattern #35)

The extent of loans made to fictitious borrowers by the loan officer could best be determined by

- A. Reviewing a representative sample of the loan officer's transactions for compliance with bank policies and procedures.
- B. Reviewing a representative sample of loan files for properly completed documents, such as loan agreements, credit approvals, and approval of secured collateral.
- C. Comparing current loan approval balances with those of prior years.
- D. Requesting positive confirmations for all outstanding loans made by the loan officer.

**[911] Gleim #: 10.6.201 -- Source: CIA 593 II-49**

(Refers to Fact Pattern #35)

The extent of loans made to fictitious borrowers by the loan officer is least likely to be discovered by

- A. Analyses of the number of loans made by each loan officer.
- B. Analysis of total dollar volume of loans by loan officer.
- C. External audits of loan files.
- D. Reconciliation of total loans outstanding to the general ledger balance.

**[912] Gleim #: 10.6.202 -- Source: CIA 591 II-47**

Purchases from two new vendors increased dramatically after a new buyer was hired. The buyer was obtaining kickbacks from the two vendors based on sales volume. A possible means of detection is

- A. Periodically surveying vendors regarding potential buyer conflict of interest or ethics violations.
- B. The receipt of an invoice to put new vendors on the master file.
- C. The use of purchase orders for all purchases.
- D. The use of change analysis and trend analysis of buyer or vendor activity.

**[913] Gleim #: 10.6.203 -- Source: CIA 591 II-48**

One remote unit's petty cash custodian, because of the small staff, also had responsibility for the imprest fund checking account reconciliation. The cashier concealed a diversion of funds by altering the beginning balance on the monthly reconciliations sent to the group office. A possible engagement procedure to detect this fraud is to

- A. Compare monthly balances and use change and trend analysis.
- B. Require additional monitoring by headquarters whenever improper segregation of duties exists at remote units.
- C. Determine whether any employees have high personal debt.
- D. Determine whether any employees are leading expensive lifestyles.

**[914] Gleim #: 10.6.204 -- Source: CIA 589 II-29**

A common fraud against banks is drawing checks on accounts with insufficient funds and depositing the checks to other accounts. An engagement procedure that is probably the most helpful in detecting this form of fraud is to

- A. Investigate all accounts whose average daily balances are low compared with the total deposit level.
- B. Confirm accounts requiring a deposit to prevent the account from becoming overdrawn based on the account's opening balance.
- C. Institute an automated procedure to identify accounts for further investigation that have attributes associated with kiting.
- D. Inspect account activity for accounts with deposits on more than 8 to 10 days per month.

**[915] Gleim #: 10.6.205 -- Source: CIA 585 II-15**

An internal auditor is more likely to detect duplicate vendor payments in a high exposure environment with certain internal control weaknesses by using which of the following procedures?

- A. Trend analysis.
- B. Monetary validity.
- C. Proportional analysis.
- D. Substantive testing.

**[916] Gleim #: 10.6.206 -- Source: CIA 591 I-49**

A subsidiary president terminated a controller and hired a replacement without the required organizational approvals. Sales, cash flow, and profit statistics were then manipulated by the new controller and president via accelerated depreciation and sale of capital assets to obtain larger performance bonuses for the controller and the subsidiary president. An approach that might detect this fraudulent activity is

- A. Analysis of overall management control for segregation of duties.
- B. Required exit interviews for all terminated employees.
- C. Periodic changes of outside public accountants.
- D. Regular analytical review of operating divisions.

**[917] Gleim #: 10.6.207 -- Source: CIA 1194 I-65**

An employee of an insurer processed a fraudulent policy loan application for an amount less than the established level requiring supervisory review. The employee then obtained the check and cashed it by forging the endorsement. To prevent the loan's appearance on a subsequent policyholder statement, the loan amount was transferred to a "suspense" account. Which of the following should expose this situation at the earliest date?

- A. A computer report identifying unusual entries to the suspense account.
- B. The use of prenumbered checks that are periodically accounted for.
- C. An annual engagement performed by the internal audit activity.
- D. Regular reconciliation of the "suspense" account performed by an independent employee.

**[Fact Pattern #36]**

An internal auditor is investigating the performance of a division with an unusually large increase in sales, gross margin, and profit.

**[918] Gleim #: 10.6.208 -- Source: CIA 1195 I-59**

(Refers to Fact Pattern #36)

If the internal auditor continued to suspect fraudulent recording of transactions to increase reported profits, which of the following procedures would be least effective?

- A. Take a physical inventory.
- B. Develop a schedule of inventory by month and investigate unusual fluctuations by reference to the perpetual inventory records.
- C. Prepare a schedule of sales fluctuations and gross margin by month. Investigate unusually high months of sales and gross margin by examining support for sales.
- D. Perform year-end sales and purchase cut-off tests.

**[919] Gleim #: 10.6.209 -- Source: CIA 1195 I-60**

(Refers to Fact Pattern #36)

Assume that the analysis shows unusually high sales and gross margin during the months of November and December and the internal auditor wishes to investigate further. Which of the following engagement procedures will be most effective in analyzing whether fraudulent sales may have been recorded?

- A. Take a sample of shipping documents and compare them with the related sales invoices, noting that all items were properly billed.
- B. Confirm accounts receivable with large customers.
- C. Perform an analytical review comparing sales and gross margin with the previous 10 months and the first month of the following year.
- D. Use regression analysis techniques for the first 10 months to estimate the sales and cost of goods sold for the last 2 months.

**[Fact Pattern #37]**

An internal auditor is performing an operational engagement at a division and observes that an unusually large quantity of goods is on hand in the shipping and materials rework areas. The items are labeled as re-ship items. Upon inquiry the internal auditor is told that these are goods that have been returned by customers and have either been repaired and shipped back to the original customer or repaired and shipped out as new products because they are fully warranted.

**[920] Gleim #: 10.6.210 -- Source: CIA 1195 I-61**

(Refers to Fact Pattern #37)

The internal auditor has not yet performed any detailed engagement work. Based on the information given, the most appropriate action for the internal auditor to take is to

- A. Report the items to divisional management and ask for management's explanation before determining whether to include the observations in an engagement communication.
- B. Take a sample of the items on hand and compare the sample items with the underlying documents, such as receiving reports and sales orders, to determine how the goods were handled.
- C. Report the observations but do not perform any additional work without the approval of the chief audit executive because such work is clearly a scope expansion.
- D. Take an inventory of the goods on hand so the monetary amount can be included in the engagement communications along with the explanation of the problem.

**[921] Gleim #: 10.6.211 -- Source: IIA, adapted**

A chief audit executive (CAE) suspects that several employees have used desktop computers for personal gain. In conducting an investigation, the primary reason that the CAE chose to engage a forensic information systems auditor rather than using the organization's information systems auditor is that a forensic information systems auditor would possess

- A. Knowledge of the computing system that would enable a more comprehensive assessment of the computer use and abuse.
- B. Knowledge of what constitutes evidence acceptable in a court of law.
- C. Superior analytical skills that would facilitate the identification of computer abuse.
- D. Superior documentation and organization skills that would facilitate in the presentation of findings to senior management and the board.

**[922] Gleim #: 10.6.212 -- Source: IIA, adapted**

What computer-assisted audit technique would an auditor use to identify a fictitious or terminated employee?

- A. Parallel simulation of payroll calculations.
- B. Exception testing for payroll deductions.
- C. Recalculations of net pay.
- D. Tagging and tracing of payroll tax-rate changes.

**[923] Gleim #: 10.6.213 -- Source: IIA, adapted**

An auditor for a major retail company suspects that inventory fraud is occurring at three stores that have high cost of goods sold. Which of the following audit activities would provide the most persuasive evidence that fraud is occurring?

- A. Use an integrated test facility (ITF) to compare individual sales transactions with test transactions submitted through the ITF. Investigate all differences.
- B. Interview the three individual store managers to determine if their explanations about the observed differences are the same, and then compare their explanations to that of the section manager.
- C. Schedule a surprise inventory audit to include a physical inventory. Investigate areas of inventory shrinkage.
- D. Select a sample of individual store prices and compare them with the sales entered on the cash register for the same items.

**[924] Gleim #: 10.7.214 -- Source: CIA 597 1-14**

Which of the following controls is the least effective in preventing a fraud conducted by sending purchase orders to bogus vendors?

- A. Require that all purchases be made from an authorized vendor list maintained independently of the individual placing the purchase order.
- B. Require that only approved vendors be paid for purchases, based on actual production.
- C. Require contracts with all major vendors from whom production components are purchased.
- D. Require that total purchases for a month not exceed the total budgeted purchases for that month.

**[925] Gleim #: 10.7.215 -- Source: CIA 597 1-22**

A potential problem for a manufacturer is that purchasing agents may take kickbacks or receive gifts from vendors in exchange for favorable contracts. Which of the following is the least effective in preventing this problem?

- A. A specific organizational policy prohibiting the acceptance of anything of value from a vendor.
- B. An organizational code of ethics that prohibits such activity.
- C. A requirement for the purchasing agent to develop a profile of all vendors before the vendors are added to the authorized vendor list.
- D. The establishment of long-term contracts with major vendors, with the contract terms approved by senior management.

**[926] Gleim #: 10.7.216 -- Source: CIA 1191 I-46**

A purchasing agent received expensive gifts from a vendor in return for directing a significant amount of business to that vendor. Which of the following organizational policies most effectively prevents such an occurrence?

- A. All purchases exceeding specified monetary amounts should be approved by an official who determines compliance with budgetary requirements.
- B. Important high-volume materials should regularly be purchased from at least two different sources in order to afford supply protection.
- C. The purchasing function should be decentralized so each department manager or supervisor does his/her own purchasing.
- D. Competitive bids should be solicited on purchases to the maximum extent that is practicable.

**[Fact Pattern #38]**

A purchasing agent acquired items for personal use with the organization's funds. The organization allowed designated employees to purchase a specified amount per day in merchandise under open-ended contracts. Supervisory approval of the purchases was required, but that information was not communicated to the vendor. Instead of reviewing and authorizing each purchase order, supervisors routinely signed the authorization sheet at the end of the month without reviewing any of the supporting documentation. Because purchases of this nature were not subject to normal receiving policies, the dishonest employee picked up the supplies at the vendor's warehouse. All purchases were for items routinely ordered by the organization. During the past year, the employee amassed enough merchandise to start a printing and photography business.

**[927] Gleim #: 10.7.217 -- Source: CIA 593 I-48**

(Refers to Fact Pattern #38)

Which of the following controls would have been most effective in preventing this fraud?

- A. Allowing purchases only from a list of pre-approved vendors.
- B. Requiring the use of prenumbered purchase orders for all purchases of merchandise.
- C. Canceling supporting documents such as purchase orders and receiving reports at the time invoices are paid.
- D. Establishing separation of duties between the ordering and receiving of merchandise.

**[928] Gleim #: 10.7.218 -- Source: CIA 593 I-49**

(Refers to Fact Pattern #38)

Which of the following engagement procedures, performed by the internal auditor, is most likely to detect this fraud?

- A. Tracing selected canceled checks to the cash payments journal and to the related vendors' invoices.
- B. Performing a trend analysis of printing supplies expenses for a 2-year period.
- C. Tracing prices and quantities on selected vendors' invoices to the related purchase orders.
- D. Recomputing the clerical accuracy of selected vendors' invoices, including discounts and sales taxes.

**[Fact Pattern #39]**

A fraud was perpetrated in a moderate-sized organization when the accounting clerk was delegated too much responsibility. During the year, the organization switched suppliers of a service to a new vendor. The accounting clerk continued to submit fraudulent invoices from the "old supplier." Because contracting for services and approval of supplier invoices had been delegated to the clerk, it was possible for the clerk to continue billings from the old supplier and deposit the subsequent checks, which the clerk was responsible to mail, into a new account the clerk opened in the name of the old supplier. The clerk was considered an excellent employee and eventually was improperly given the added responsibility of preparing the department budgets. This added responsibility allowed the clerk to budget for the amount of the fraudulent payments.

**[929] Gleim #: 10.7.219 -- Source: CIA 594 I-3**

(Refers to Fact Pattern #39)

Which of the following controls would have been least likely to prevent or detect the fraud described?

- A. Requiring authorization of payments by someone other than the clerk negotiating the contract.
- B. Comparison by the person signing checks of invoices with an independent verification of services received.
- C. Budget preparation by someone other than the person signing contracts and approving payment.
- D. Mailing of checks by someone other than the person responsible for check signing or invoice approval.

**[930] Gleim #: 10.7.220 -- Source: CIA 594 I-4**

(Refers to Fact Pattern #39)

Which of the following engagement procedures is most likely to detect the fraud?

- A. Take a sample of paid invoices and verify receipt of services by departments involved.
- B. Trace a sample of checks disbursed to approved invoices for services.
- C. Perform a bank reconciliation and account for all outstanding checks.
- D. Trace a sample of receiving documents to invoices and to checks disbursed.

**[931] Gleim #: 10.7.221 -- Source: CIA 1194 I-59**

A programmer's accumulation of roundoff errors into one account, which is later accessed by the programmer, is a type of computer fraud. The best way to prevent this type of fraud is to



- A. Build in judgment with reasonableness tests.
- B. Independently test programs during development and limit access to the programs.
- C. Segregate duties of systems development and programming.
- D. Use control totals and check the results of the computer.

**[Fact Pattern #40]**

When an internal auditor followed up on a significant increase in maintenance supplies during the past year, a purchasing agent explained to the internal auditor that the primary reason for the increase was painting services and supplies. The internal auditor found a blanket purchase order without the normal bid or quote documentation. The blanket purchase order had been signed by the general manager and named the general manager's father as the sole contractor for painting services on the organization's projects. The auditor also found a number of large invoices, authorized for payment by the general manager, that showed the general manager's father as the person who signed for the receipt of the material at the supplier.

**[932] Gleim #: 10.7.222 -- Source: CIA 1196 I-35**

(Refers to Fact Pattern #40)

To test whether data currently within the automated system are correct, the internal auditor should

- A. Use test data and determine whether all the data entered are captured correctly in the updated database.
- B. Take a sample of data to be entered for a few days and trace the data to the updated database to determine the correctness of the updates.
- C. Use generalized audit software to provide a print-out of all employees with invalid job descriptions. Investigate the causes of the problems.
- D. Use generalized audit software to select a sample of employees from the database, and verify the data fields.

**[933] Gleim #: 10.7.223 -- Source: CIA 590 II-50**

After completing an investigation, internal auditing has concluded that an employee has stolen a significant amount of cash receipts. A draft of the proposed communication on this observation should be submitted for review to

- A. Legal counsel.
- B. The board.
- C. The chief executive officer of the organization.
- D. The organization's outside auditors.

**[Fact Pattern #41]**

An internal auditor is investigating the performance of a division with an unusually large increase in sales, gross margin, and profit.

**[934] Gleim #: 10.7.224 -- Source: CIA 595 I-44**

(Refers to Fact Pattern #41)

Which of the following items might alert the internal auditor to the possibility of fraud in the division?

- A. The division is not scheduled for an external audit this year.
- B. Sales have increased by 10%.
- C. A significant portion of management's compensation is directly tied to reported net profit of the division.
- D. All of the answers are correct.

**[Fact Pattern #42]**

An organization has grown rapidly and has just automated its human resource system. The organization has developed a large database that tracks employees, employee benefits, payroll deductions, job classifications, ethnic code, age, insurance, medical protection, and other similar information. Management has asked the internal audit activity to review the new system.

**[935] Gleim #: 10.7.225 -- Source: CIA 1196 I-37**

(Refers to Fact Pattern #42)

An employee in the payroll department is contemplating a fraud involving the addition of a fictitious employee and the entry of fictitious hours worked. The paycheck would then be sent to the payroll employee's home address. The most effective control procedure to prevent this type of fraud is to require that

- A. A report of all new employees added be approved by someone outside of the payroll department. Also, a report showing all employees and hours worked should be sent to the supervisor's department for review.
- B. All new employees and their hours worked be entered by the human resources department.
- C. All changes to employee records be approved by supervisors outside of both human resources and payroll.
- D. The payroll department physically delivers paychecks to employees rather than mailing them.

**[936] Gleim #: 10.7.226 -- Source: CIA 587 I-28**

The risk of the addition of fictitious employees to the payroll by the person performing the payroll processing function is reduced by

- A. Requiring that payroll additions be approved by the controller.
- B. Requiring the same employee to perform the monthly payroll bank reconciliation.
- C. Performing periodic floor checks of employees on the payroll.
- D. Requiring a reconciliation of hours between time cards and hours paid.

**[937] Gleim #: 10.7.227 -- Source: CIA 588 I-46**

During an engagement involving the purchasing department, an internal auditor learned that one vendor rewarded buyers in proportion to the size of the orders received. What recommendation should the internal auditor make to reduce the likelihood of future acceptance of such rewards by the buyers?

- A. Establishing an employee counseling program.
- B. Periodic review of buyer lifestyles.
- C. A policy of identifying and reducing buyer situational pressures.
- D. A strong, written statement of management's commitment to organizational ethics.

**[938] Gleim #: 10.7.228 -- Source: CIA 1191 II-45**

Fraudulent use of the organization's credit cards is minimized by which of the following internal control procedures?

- A. Establishing an organizational policy on the issuance of credit cards to authorized employees.
- B. Reviewing the validity of credit card need at executive and operating levels on a periodic basis.
- C. Reconciling the monthly statement from the credit card issuer with the submitted copies of the cardholder's charge slips.
- D. Subjecting credit card charges to the same expense controls as those used on regular organizational expense forms.

**[939] Gleim #: 10.7.229 -- Source: CIA 591 I-48**

An organization hired a highly qualified accounts payable manager who had been terminated from another organization for alleged wrongdoing. Six months later, the manager diverted \$12,000 by sending duplicate payments of invoices to a relative. A control that might have prevented this situation is to

- A. Adequately check prior employment backgrounds for all new employees.
- B. Not hire individuals who appear overqualified for a job.
- C. Verify educational background for all new employees.
- D. Check to see whether close relatives work for vendors.

**[940] Gleim #: 10.7.230 -- Source: CIA 595 I-48**

Internal auditors and management have become increasingly concerned about computer fraud. Which of the following control procedures is least important in preventing computer fraud?

- A. Program change control requiring a distinction between production programs and test programs.
- B. Testing of new applications by users during the systems development process.
- C. Segregation of duties between the applications programmer and the program librarian function.
- D. Segregation of duties between the programmer and systems analyst.

**[941] Gleim #: 10.7.231 -- Source: CIA 591 I-23**

A means of ensuring that payroll checks are drawn for properly authorized amounts is to

- A. Conduct periodic floor verification of employees on the payroll.
- B. Require that undelivered checks be returned to the cashier.
- C. Require supervisory approval of employee time cards.
- D. Witness the distribution of payroll checks.

**[942] Gleim #: 10.7.232 -- Source: CIA 1191 II-11**

A payroll clerk working through a computerized payroll system increased the hourly pay rate of two employees and shared the resulting overpayments with the employees. Which of the following would have best served to prevent this illegal act?

- A. Requiring that all changes to pay records be recorded on a standard form.
- B. Limiting access to master payroll records to supervisory personnel in the payroll department.
- C. Reconciling pay rates per personnel records with those of the payroll system annually.
- D. Monitoring of payroll costs by department heads on a monthly basis.