

Question 1

Which forms of control self-assessment assume that managers and members of work teams possess an understanding of risk and control concepts and use those concepts in communications?

- A. The self-certification approach.
- B. The self-certification approach and facilitated approach.
- C. The self-certification approach and questionnaire approach.
- D. All self-assessment programs.

Question 2

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. Which of the following engagement procedures, performed by the internal auditor, is most likely to detect this fraud?

- A. Tracing prices and quantities on selected vendors' invoices to the related purchase orders.
- B. Recomputing the clerical accuracy of selected vendors' invoices, including discounts and sales taxes.
- C. Performing a trend analysis of printing supplies expenses for a 2-year period.
- D. Tracing selected canceled checks to the cash payments journal and to the related vendors' invoices.

Question 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 function 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. Develop a financial and behavioral profile of the suspect.
- C. Obtain a list of approved media outlets.
- D. Vouch any material past charge-offs of receivables.

Question 4

The internal audit function 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 needs to 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, preferably in writing, to the board.
- C. Communicated to management stating that the limitation will not be accepted because it would impair the internal audit function's independence.
- D. Communicated to the external auditors, so they can investigate the area in more detail.

Question 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. The Standards.
- B. Global Practice Guides.
- C. Internal audit function policies and procedures.
- D. The internal audit function's charter.

Question 6

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.

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. Production department is deflating the price of products purchased and thereby increasing the reported gross margin of sales.
- 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. Purchasing agent is purchasing the majority of products from a favorite vendor because rotation among purchasing agents is not mandatory.

Question 7

Which of the following is permissible under The IIA's Standards of Ethics and Professionalism?

- A. An auditor used audit-related information in a decision to buy stock issued by the employer corporation.
- B. An auditor did not report significant observations about illegal activity to the board because management indicated that it would resolve the issue.
- C. 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.
- D. After praising an employee in a recent audit engagement communication, an auditor accepted a gift from the employee.

Question 8

The types of services provided by the internal audit function can best be described as

- A. Auditing and engagement.
- B. Auditing and assurance.
- C. Auditing and advisory.
- D. Assurance and advisory.

Question 9

According to The IIA's Standards of Ethics and Professionalism, which of the following principles is relevant to the establishment of trust?

- A. Integrity.
- B. Competency.
- C. Objectivity.
- D. Confidentiality.