

# IIA-CIA-PART1<sup>Q&As</sup>

Certified Internal Auditor - Part 1, The Internal Audit Activity's Role in Governance, Risk, and Control

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**QUESTION 1**

Which of the following is not an appropriate control related to sales in a manufacturing company?

- A. Customers' orders are recorded promptly.
- B. Goods shipped are matched with valid customer orders.
- C. Goods returned are inspected for damage by the sales department and then entered into inventory.
- D. Credit department approval is required for credit sales transactions.

Correct Answer: C

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**QUESTION 2**

A company's chief audit executive determines that the internal audit staff does not have the requisite skills to conduct an audit of the financial derivatives area. Which of the following actions would be the least acceptable?

- A. Notify the audit committee of the problem and consult with them regarding outsourcing the audit engagement to a qualified external auditing firm.
- B. Determine the requisite knowledge needed and obtain the proper training for auditors if such training is available within the appropriate time framework outlined by the audit committee.
- C. Notify the audit committee of the problem and assign the most competent auditors to perform the audit engagement.
- D. Employ the skills of a financial derivatives expert to consult on the project, and supplement the consulting with a local seminar on financial derivatives.

Correct Answer: C

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**QUESTION 3**

An internal auditor used a questionnaire during an interview to gather information about the nature of credit sales processing. The questionnaire did not cover some pertinent information offered by the person being interviewed, and the auditor did not document the potential problems for further investigation. The primary deficiency with the above process is that:

- A. The auditor failed to consider the importance of the information offered.
- B. A questionnaire was used in a situation where a structured interview should have been used.
- C. The use of a questionnaire precluded the auditor from documenting other information.
- D. The engagement program was incomplete.

Correct Answer: A

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**QUESTION 4**

Internal auditors must exercise due professional care by considering which of the following?

1.

Cost of assurance in relation to potential benefits.

2.

Adequacy and effectiveness of governance, risk management, and control processes.

3.

Management's competency level in the area being evaluated.

4.

Probability of significant errors, fraud, or noncompliance.

A. 1 and 2 only

B. 1, 2, and 3 only

C. 1, 2, and 4 only

D. 2, 3, and 4 only

Correct Answer: C

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**QUESTION 5**

According to IIA guidance, which of the following is an area in which the internal auditor should be proficient?

A. Management principles.

B. Computerized information systems.

C. Internal audit standards, procedures, and techniques.

D. Fundamentals of accounting, economics, and finance.

Correct Answer: C

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**QUESTION 6**

Which of the following definitions best describes enterprise risk management?

A. Enterprise risk management is narrower than internal control and focuses on managing the risk of loss resulting from external events.

B. Enterprise risk management is narrower than internal control and focuses on risk mitigation strategies across the enterprise.

C. Enterprise risk management is broader than internal control and focuses on risk identification and management, and assurance that business objectives will be met.

D. Enterprise risk management is broader than governance and internal control, and focuses on activities designed to ensure that risks are contained at a level acceptable to the enterprise.

Correct Answer: C

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**QUESTION 7**

Which of the following would have the least impact (either positive or negative) on an assessment of a department's control environment?

A. The department managed long-term investments, including investment in derivatives and other financial instruments, to maximize return.

B. The department manager sets a tone of honesty and integrity in all business dealings and this tone is emulated by department personnel.

C. Many department functions were duplicated or verified by other department employees as part of the department's normal procedures.

D. Audit tests designed to verify compliance with control procedures detected a general failure to follow standard procedures for transaction authorization.

Correct Answer: A

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**QUESTION 8**

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

Which of the following statements is true about the auditor's actions?

A. They are in violation of the IIA Code of Ethics because the auditor withheld meaningful information.

B. They are in violation of the Standards because the auditor did not properly follow up on a red flag that might indicate the existence of fraud.

C. They are in violation of neither the IIA Code of Ethics nor the Standards.

D. They are not in violation of the Standards but are in violation of the IIA Code of Ethics.

Correct Answer: C

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**QUESTION 9**

An organization that outsources much of its internal audit work to an external service provider is planning for an external quality assessment. Which of the following options would accomplish this task and be in conformance with the

Standards?

- A. External industry associate that performed a similar review for a supplier of the organization.
- B. A team from an independent entity that previously employed the chief audit executive of the organization.
- C. A team under the direction of the organization's chief audit executive with validation by a former manager of the internal audit activity.
- D. The same external service provider because of its competency and experience with the organization.

Correct Answer: A

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#### **QUESTION 10**

An auditor identifies three errors in the sample of 25 entries selected for review (a 12 percent error rate). Based on this result, the auditor assumes that approximately 59 of the total population of 492 entries are incorrect. To reach this assumption, the auditor has used a technique known as which of the following?

- A. Variability tolerance.
- B. Ratio estimation.
- C. Stratification.
- D. Acceptance sampling.

Correct Answer: B

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#### **QUESTION 11**

Which of the following audit activities is within the scope of assurance activities as stated in the International Professional Practices Framework?

- A. Review a make-or-buy decision and report a recommendation to management for approval.
- B. Participate in negotiations for a corporate acquisition.
- C. Assess financing alternatives for a new generator.
- D. Perform an evaluation of management's planning process.

Correct Answer: D

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#### **QUESTION 12**

Which of the following is a key performance indicator for an internal audit function?

- A. Audit expenditures compared to financial budgets.
- B. Percent of required continuing education hours completed.

- C. Implementation of new audit computer software.
- D. Frequency of meetings with the board members.

Correct Answer: B

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**QUESTION 13**

In which of the following functions would fraud be most likely to occur?

- A. Maintaining custody of inventory records.
- B. Collecting payments on accounts.
- C. Approving changes to employee records.
- D. Preparing customer statements.

Correct Answer: B

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**QUESTION 14**

To promote a positive image within an organization, a chief audit executive (CAE) adjusted the audit plan to focus on assurance engagements that highlighted potential costs to be saved. Negative observations were to be omitted from engagement final communications. Which action taken by the CAE would be considered a violation of the Standards?

- I. The focus of the audit function was changed without modifying the audit charter or notifying the audit committee.
- II. Negative observations were omitted from the engagement final communications.
- III. Cost savings and recommendations were highlighted in the engagement final communications.

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

Correct Answer: B

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## QUESTION 15

When performing benchmarking during the planning phase of a performance audit, an internal auditor should:

- A. Determine the current performance gap.
- B. Project future performance levels.
- C. Develop functional action plans.
- D. Identify comparative organizations.

Correct Answer: D

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