

PART 1 DOMAIN 1

Question 1 of 111

The Mandatory Guidance in the IIA's new International Professional Practices Framework (IPPF) does not address which of the following?

- A. Code of Ethics
- B. Implementation Guidance
- C. The Core Principles
- D. The Standards

Answer (B) is Correct.

The Implementation Guidance and Supplemental Guidance are a part of Recommended Guidance, not a part of the Mandatory Guidance.

- A . The Mandatory Guidance addresses the Code of Ethics.
- C . The Mandatory Guidance addresses the Core Principles.
- D . The Mandatory Guidance addresses the Standards.

Question 2 of 111

An internal audit function is effective:

- A. When an audit plan is prepared.
- B. When an audit budget is approved.
- C. When the audit's mission is accomplished.
- D. When all auditors are trained.

Answer (C) is Correct.

This is the major goal.

- A . This is one of the minor goals.
- B . This is one of the minor goals.
- D . This is one of the minor goals.

Question 3 of 111

Which of the following can aid in measuring the effectiveness of an internal audit function?

- A. Pareto principle
- B. Stevens' Power Law
- C. Gresham's Law
- D. Kano principle

Answer (D) is Correct.

The Kano principle can be applied to a feedback process from audit clients using three rating scales such as satisfied, neutral, and dissatisfied for measuring the effectiveness of internal audit function.

A . The Pareto principle states that there are vital few (20%) and trivial many (80%) things in the world.

B . The Stevens' Power Law states that there are four types of scales that can be used to define how things or data can be measured, arranged, or counted. These scales include nominal, ordinal, interval, and ratio scales, and these scales are used in big-data analytics, as data counting methods.

C . The Gresham's Law of planning states that managers pay more attention and put more time and effort into planning programmed activities (i.e., routine and simple tasks) than planning for nonprogrammed activities (i.e., rare and complex tasks).

Question 4 of 111

An internal audit function is effective:

- A. When the audit function provides value.
- B. When an audit manual is developed.
- C. When all auditors are efficient.
- D. When all auditors are certified.

Answer (A) is Correct.

This is the major goal.

This is one of the minor goals.

This is one of the minor goals.

This is one of the minor goals.

Question 5 of 111

Agile audits are best described as:

- A. Historical audits.
- B. Scheduled audits.
- C. Anticipatory audits.
- D. Cycle audits.

Answer (C) is Correct.

Anticipatory audits are sudden and unexpected audits based on current events that just happened or are about to happen in the immediate future.

- A . Agile audits are not historical audits because they have no resemblance to the past events.
- B . Scheduled audits are cycle audits with a known frequency.
- D . Cycle audits are repeatable audits on a known frequency.

Question 6 of 111

An internal audit function is effective in the minds of the board and senior management when it is performing:

- A. Error-seeking audits.
- B. Value-adding audits.
- C. Nitpicking audits
- D. Fault-blaming audits.

Answer (B) is Correct.

In value-adding audits, something good is added to a function or operation that was not there before. Consulting auditors can provide this value.

- A . Error-seeking audits are low-level audits that the board and senior management may not prefer these types of audits because errors are possible and expected events with employees, meaning errors are normal and common. Error-seeking audits provide no value to audit clients.
- C . Nitpicking audits are surface audits based on using a superficial audit scope and objectives. Nitpicking audits provide no value to audit clients.
- D . Fault-blaming audits are finger-pointing audits blaming policies, procedures, and practices based on past events. Fault-blaming audits provide no value to audit clients.

Question 7 of 111

The U.S. Securities and Exchange Commission (SEC) and the U.S. Sarbanes-Oxley Act (SOX) did not recommend which of the following to become the financial expert representing on the audit committee of a publicly held corporation?

- A. Internal auditor
- B. External auditor
- C. Principal financial officer
- D. Principal accounting officer

Answer (A) is Correct.

Both the SEC and SOX did not recommend the internal auditor to represent as the financial expert to sit on the audit committee.

B . Both the SEC and SOX did recommend the external auditor to represent as the financial expert to sit on the audit committee.

C . Both the SEC and SOX did recommend the principal financial officer to represent as the financial expert to sit on the audit committee.

D . Both the SEC and SOX did recommend the principal accounting officer to represent as the financial expert to sit on the audit committee.

Question 8 of 111

According to the U.S. Securities and Exchange Commission (SEC) and the U.S. Sarbanes-Oxley Act (SOX), which of the following is referred when a CEO and CFO need to give up their bonuses and incentives based on financial results that later had to be restated or proved to be fraudulent?

- A. Pushback provision
- B. Clawback provision
- C. Pullback provision
- D. Rollback provision

Answer (B) is Correct.

The clawback provision requires that the CEO and CFO of a corporation to give up bonuses and incentives received based on financial results of their company that later had to be restated or found to be fraudulent. There is a bad intent on the part of the company's management.

A . There is no bad intent with the pushback provision.

C . There is no bad intent with the pullback provision.

D . There is no bad intent with the rollback provision.

Question 9 of 111

According to the U.S. Securities and Exchange Commission (SEC) and the U.S. Sarbanes-Oxley Act (SOX), which of the following is referred when a company misrepresents the dates on which stock options were granted to executives and employees?

- A. End-of-year dating
- B. Backdating
- C. End-of-month dating
- D. End-of-quarter-dating

Answer (B) is Correct.

Backdating is a management fraud, resulting in an artificially low exercise price for stock options granted to executives and employees that could lead to financial restatements. Backdating represents a bad intent of unnecessarily favoring executives and employees in reducing their tax burden by manipulating the issue date of stock options. Both the SEC and SOX enforcers have ended the backdating of stock options.

- A . There is no bad intent with end-of-year dating.
- C . There is no bad intent with end-of-month dating.
- D . There is no bad intent with end-of-quarter dating.

Question 10 of 111

What is the key word in the Institute of Internal Auditors (IIA) Mission Statement of internal audit?

- A. Assurance
- B. Advice.
- C. Value
- D. Insight

Answer (C) is Correct.

The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. Here, value is the key word because it drives the other words.

- A . Assurance is a part of the internal audit's mission, not the key word.
- B . Advice is a part of the internal audit's mission, not the key word.
- D . Insight is a part of the internal audit's mission, not the key word.

Question 11 of 111

The new International Professional Practices Framework (IPPF) effective from 2017 contains which of the following that was not a part of the previous IPPF?

- A. Mission and Core Principles
- B. Definition of Internal Auditing and Practice Guides
- C. Code of Ethics and Glossary
- D. International Standards and local standards for Internal Auditing

Answer (A) is Corrcet.

Mission and Core Principles are new and were added to the new IPPF effective from 2017.

- B . The definition of internal auditing and practice guides were in the previous IPPF. They are not new.
- C . The Code of Ethics and Glossary were in the previous IPPF. They are not new.
- D . The International Standards and local standards for internal auditing were in the previous IPPF. They are not new.

Question 12 of 111

The internal audit activity's Core Principles can be used as which of the following?

- A. Metrics
- B. Benchmarks
- C. Key performance indicators
- D. Dashboards

Answer (B) is Correct.

The Core Principles can be used as a benchmark against which to gauge the effectiveness of an internal audit activity.

- A . Metrics are qualitative and quantitative measurements of an activity.
- C . Key performance indicators are similar to metrics for measuring an activity.
- D . Dashboards are presentation tools to show progress of an activity.

Question 13 of 111

The internal audit activity's Core Principles describe which of the following?

- A. Efficiency
- B. Resources
- C. Plans
- D. Effectiveness

Answer (D) is Correct.

The Core Principles are the key elements that describe an internal audit activity's effectiveness.

- A . Efficiency is not described in the Core Principles.
- B . Resources are not described in the Core Principles.
- C . Plans are not described in the Core Principles.

Question 14 of 111

The internal audit activity's Core Principles underpin which of the following?

- A. Code of Ethics and Standards
- B. Efficiency and effectiveness
- C. Metrics and key performance indicators
- D. Resources and skills

Answer (A) is Correct.

The Core Principles are the foundational underpinnings of the Code of Ethics and the Standards.

- B . This choice is not applicable to the Core Principles.
- C . This choice is not applicable to the Core Principles.
- D . This choice is not applicable to the Core Principles.

Question 15 of 111

Which of the following are not key value drivers of an organization?

- A. Strategies and goals
- B. Culture and ethics
- C. Products and services
- D. Shareholders

Answer (D) is Correct.

Shareholders are not key value drivers because they are outsiders and play little or no role in the day-to-day operations of an organization, either to create or destroy value. Key value drivers are core elements that can make an organization either a value creator or a value destroyer.

- A . Strategies and goals are key value drivers of an organization. Key value drivers are core elements that can make an organization either a value creator or a value destroyer.
- B . Culture and ethics are key value drivers of an organization. Key value drivers are core elements that can make an organization either a value creator or a value destroyer.
- C . Products and services are key value drivers of an organization. Key value drivers are core elements that can make an organization either a value creator or a value destroyer.

Question 16 of 111

The IIA definition of internal auditing emphasizes the effectiveness of which of the following?

- A. Value, cost, and benefit propositions.
- B. Inherent risk, residual risk, and total risk.
- C. Risk management, control, and governance processes.
- D. Purpose, nature, and scope of work.

Answer (C) is Correct.

The definition of internal auditing states the fundamental purpose, nature, and scope of internal auditing. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

A . Refer to the correct answer.

B . Refer to the correct answer.

D . Refer to the correct answer.

Question 17 of 111

Several members of senior management have questioned whether the internal audit department should report to the newly established, quality audit function as part of the total quality management process within the company. The chief audit executive (CAE) has reviewed the quality standards and the programs that the quality audit manager has proposed. The CAE's response to senior management should include:

- A. Changing the applicable standards for internal auditing within the company to provide compliance with quality audit standards.
- B. Changing the qualification requirements for new staff members to include quality audit experience.
- C. Estimating departmental cost savings from eliminating the internal auditing function.
- D. Identifying appropriate liaison activities with the quality audit function to ensure coordination of audit schedules and overall audit responsibilities.

Answer (D) is Correct.

Coordination of audit efforts and the efficiency of audit activities should be primary responsibilities of the CAE (IIA Standard 1000 – Purpose, Authority, and Responsibility).

A . Adopting the full set of quality auditing standards for the internal auditing function would duplicate functions within the organization.

B . The issue is the reporting relationship of internal auditing, not the qualifications of audit staff.

C . Sufficient information is not given to conclude that the internal audit function should be eliminated.

Question 18 of 111

The director of internal auditing of a midsize internal auditing organization was concerned that management might outsource the internal auditing function. Therefore, the manager adopted a very aggressive program to promote the internal auditing department within the organization. The

manager planned to present the results to management and the audit committee and recommend modification of the internal audit charter after using the new program. Six actions the audit manager took to promote a positive image within the organization are listed next.

Audit assignments concentrated on economy and efficiency audits. The audits focused solely on cost savings, and each audit report highlighted potential costs to be saved. Negative findings were omitted. The focus on economy and efficiency audits was new, but the auditees seemed very happy.

Drafts of all audit reports were carefully reviewed with auditees to get their input. Their comments were carefully considered when developing the final audit report.

The information technology auditor participated as part of a development team to review the control procedures to be incorporated into a major computer application under development.

Given limited resources, the audit manager performed a risk analysis to determine which locations to audit. This was a marked departure from the previous approach of ensuring that all operations are reviewed on at least a three-year interval.

In order to save time, the manager no longer required that a standard internal control questionnaire be completed for each audit.

When the auditors found that management and the auditee had not developed specific criteria or data to evaluate the operations of the auditee, the audit team was instructed to perform research, develop specific criteria, review the criteria with the auditee, and if acceptable, use it to evaluate the auditee's operations. If the auditee disagreed with the criteria, a negotiation took place until acceptable criteria could be agreed upon. The audit report commented on the auditee's operations in conjunction with the agreed-on criteria.

Which of the following elements of Action 1 taken by the audit manager would be considered a violation of the IIA Standards?

- I. The type of audits was changed before modifying the charter and going to the audit committee.
 - II. Negative findings were omitted from the audit reports.
 - III. Cost savings and recommendations were highlighted in the report.
- A. I and II.
 - B. I and III.
 - C. I only.
 - D. II and III.

Answer (A) is Correct.

The audit manager dramatically changed the nature of the audit function without consulting with the audit committee, management, or the audit department charter. A second violation is the omission of negative findings (IIA Standard 1000 – Purpose, Authority, and Responsibility; IIA Standard 2300 – Performing the Engagement).

B . Highlighting potential cost savings is appropriate for an audit report.

C . Item II is also a violation.

D . Highlighting cost savings is appropriate.

Question 19 of 111

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