

# Exam Questions IIA-ACCA

ACCA CIA Challenge Exam

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#### NEW QUESTION 1

- (Topic 1)

Which of the following statements is true about The IIA Global Internal Audit Competency Framework?

- A. The core competencies outlined in the framework are not expected of a person undertaking an entry-level position as an internal auditor.
- B. The framework is designed to be used primarily by chief audit executives that are developing indicators to measure the performance of the internal audit activity for which they are responsible.
- C. The framework lists the core competencies internal auditors should possess before attempting to attain The IIA's Certified Internal Auditor certification.
- D. The framework describes competencies needed for individual internal auditors, but not those necessary at the chief audit executive level.

**Answer: B**

#### NEW QUESTION 2

- (Topic 1)

An internal auditor is performing analytical reviews as part of an audit of a supermarket's merchandising department. Because the economy has declined since midyear, the auditor can expect to encounter which of the following?

- A. Higher inventory turnover.
- B. Higher operating margin.
- C. Lower obsolete stock disposal.
- D. Lower sales volume.

**Answer: D**

#### NEW QUESTION 3

- (Topic 1)

Which of the following are core responsibilities to be included in the internal audit charter?

- \* 1. Review reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- \* 2. Determine the adequacy and effectiveness of the organization's systems of internal accounting and operating controls.
- \* 3. Participate in the planning and performance of audits of potential acquisitions with the organization's outside accountants and other members of the corporate staff.
- \* 4. Report to those members of management who should be informed of results of audit examinations, the audit opinions formed, and the recommendations made.

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

**Answer: A**

#### NEW QUESTION 4

- (Topic 1)

What should the internal auditor's role be in assessing the organization's ethical climate?

- A. Perform ongoing surveys of the employees, customers, and partners of the organization to assess the organization's ethical climate.
- B. Evaluate the effectiveness of the organization's strategies and processes for achieving the desired level of legal and ethical compliance.
- C. Maintain a whistleblower hotline to identify inappropriate or illegal activity within the organization.
- D. Perform background checks of potential new employees before they are hired by the organization.
- E. Perform background checks of potential new employees before they are hired by the organization.

**Answer: B**

#### NEW QUESTION 5

- (Topic 1)

Which of the following types of social responsibilities is voluntary and guided purely by the organization's desire to make social contributions?

- A. The bottom of the pyramid responsibility.
- B. Innovative responsibility.
- C. Ethical responsibility.
- D. Discretionary responsibility.

**Answer: C**

#### NEW QUESTION 6

- (Topic 1)

While preparing for an audit of senior management expenses, the chief audit executive (CAE) learns that management is unable to locate a number of original expense claims to support the related disbursements. She decides to defer the engagement until they can be located. Which of the following principles likely guided the CAE's decision?

- A. Objectivity.
- B. Proficiency.
- C. Independence.
- D. Due professional care.

**Answer: D**

#### NEW QUESTION 7

- (Topic 1)

The manager for an organization's accounts payable department resigned her post in that capacity. Three months later, she was recruited to the internal audit activity and has been working with the audit team for the last eight months. Which of the following assignments would the newly hired internal auditor be able to execute without any impairments to independence or objectivity?

- A. An operations audit of the accounts payable department.
- B. A consulting engagement related to a new accounts payable optimization initiative.
- C. A review of the employees' sports club finances, which are overseen by the chief audit executive.
- D. An assurance review for a sales program on which she previously provided consultation.

**Answer: C**

#### NEW QUESTION 8

- (Topic 1)

Which of the following is true regarding the use of a formal risk management framework?

- \* 1. It facilitates a methodical approach to risk mitigation.
- \* 2. It defines and standardizes the terminology used in risk communication.
- \* 3. It establishes the risk tolerance levels to be accommodated in the strategy.
- \* 4. It facilitates the alignment of risk mitigation strategies with management priorities.

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

**Answer: B**

#### NEW QUESTION 9

- (Topic 1)

The security department uncovered what appears to be a complex fraud in the accounting department. The CEO has requested the internal audit activity to investigate the fraud. If the internal audit staff lacks the expertise to conduct the investigation, how should the chief audit executive proceed?

- A. Disclose the deficiency, and request that the investigation be reassigned to the first line of defense.
- B. Proceed with the investigation, as internal auditors are not required to have fraud expertise.
- C. Outsource the sensitive investigation to a third-party consultant with fraud expertise.
- D. Select a member of the accounting department who is not involved in the fraud to join the investigation team in a consulting capacity.

**Answer: C**

#### NEW QUESTION 10

- (Topic 1)

Which of the following is most likely to enhance an internal auditor's objectivity?

- A. An auditor is appropriately able to communicate results.
- B. An auditor performs his work free from interference.
- C. An auditor is unrestricted in determination of scope.
- D. An auditor avoids conflicts of interest.

**Answer: D**

#### NEW QUESTION 10

- (Topic 1)

Which of the following is not an objective of internal control?

- A. Compliance.
- B. Accuracy.
- C. Efficiency.
- D. Validation.

**Answer: D**

#### NEW QUESTION 14

- (Topic 1)

According to the IA Code of Ethics, which of the following statements best describes the principle of competency?

- A. Internal auditors shall perform their work with honesty, diligence, and responsibility.
- B. Internal auditors shall perform their work in accordance with the Standards.
- C. Internal auditors shall perform their work in accordance with the law and make disclosures expected by the law.
- D. Internal auditors shall be prudent in the use of information acquired while performing their work.

**Answer: B**

#### NEW QUESTION 19

- (Topic 1)

Which of the following is an example of a detective control?

- A. Automatic shut-off valve.
- B. Auto-correct software functionality.
- C. Confirmation with suppliers and vendors.
- D. Safety instructions.

**Answer: C**

#### NEW QUESTION 23

- (Topic 1)

According to IIA guidance, which of the following statements is true regarding periodic internal assessments of the internal audit activity?

- A. Internal assessments are conducted to benchmark the internal audit activity's performance against industry best practices.
- B. Internal assessments must be performed at least once every five years by a qualified assessor.
- C. An internal auditor may perform a peer review of a colleague's workpapers, as long as the auditor wasn't involved in the audit under review.
- D. Follow-up to ensure appropriate improvements are implemented is a recommended, but not mandatory, element of internal assessments.

**Answer: C**

#### NEW QUESTION 25

- (Topic 1)

Which of the following is the most common way that occupational fraud is detected?

- A. Internal audits.
- B. Whistleblower hotline.
- C. Key controls.
- D. External audits.

**Answer: B**

#### NEW QUESTION 29

- (Topic 1)

Management would like to self-assess the overall effectiveness of the controls in place for its 200-person manufacturing department. Which of the following client-facilitated approaches is likely to be the most efficient way to accomplish this objective?

- A. Workshops.
- B. Surveys.
- C. Interviews.
- D. Observation.

**Answer: B**

#### NEW QUESTION 34

- (Topic 1)

Management is developing and implementing a risk and control framework for use throughout the organization. Which of the following elements should be included in the organization's control framework?

- \* 1. Appropriate levels of authority and responsibility.
- \* 2. Supervision of staff and appropriate review of work.
- \* 3. The seniority of management in the organization.
- \* 4. The ability to trace each transaction to an accountable and responsible individual.

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

**Answer: D**

#### NEW QUESTION 38

- (Topic 1)

To fill a critical vacancy, an internal auditor is assigned temporarily to a nonaudit role in the purchasing department, where she worked previously before joining the internal audit activity. According to IIA guidance, which of the following statements is true regarding these circumstances?

- A. The chief audit executive (CAE) should review all work performed by the auditor during her temporary assignment to ensure no impairments.
- B. The CAE may conduct audits in the purchasing department during the auditor's temporary assignment.
- C. The auditor should obtain the CAE's approval as to the nature and scope of the duties she is permitted to perform during her temporary assignment.
- D. Any work performed by the auditor during her temporary assignment must conform to the internal audit charter.

**Answer: C**

#### NEW QUESTION 43

- (Topic 1)

According to IIA guidance, which of the following external groups is most likely to represent a liability risk, based on activities associated with the organization's corporate social responsibility program?

- A. Consumers.
- B. Activists.
- C. Suppliers.

D. Investors.

**Answer: B**

**NEW QUESTION 48**

- (Topic 1)

According to IIA guidance, which of the following should be included in the internal audit charter?

- A. The minimum resources and competencies needed for the internal audit activity.
- B. Identification of the organizational units where engagements are to be performed.
- C. Organizational relationships and reporting lines.
- D. Assigned responsibilities for designing and implementing controls.

**Answer: C**

**NEW QUESTION 53**

- (Topic 1)

Which of the following options is the most cost-effective and efficient way for internal auditors to keep current with the latest developments in the internal audit profession?

- A. Attending annual professional conferences and seminars.
- B. Participating in on-the-job training in various departments of the organization.
- C. Pursuing as many professional certifications as possible.
- D. Maintaining membership in The IIA and similar professional organizations and subscribing to relevant email updates or news feeds.

**Answer: D**

**NEW QUESTION 55**

- (Topic 1)

An internal auditor is evaluating techniques management uses to mitigate risks within a particular product division. Which of the following is an example of risk reduction?

- A. Management sells the product division to a competitor.
- B. Management outsources the product division to a third party.
- C. Management allows the product division to remain unchanged.
- D. Management modifies the product division to minimize errors.

**Answer: D**

**NEW QUESTION 58**

- (Topic 1)

According to the COSO enterprise risk management (ERM) framework, which of the following is not part of the new paradigm in ERM?

- A. Assessing the risk factors.
- B. Aligning risk appetite and strategy.
- C. Enhancing risk response decisions.
- D. Reducing operational surprises and losses.

**Answer: A**

**NEW QUESTION 62**

- (Topic 1)

Which of the following professional development approaches would offer internal auditors the most opportunities to broaden their engagement experiences?

- A. Assign more experienced internal auditors to mentor the less experienced auditors.
- B. Send internal auditors to external trainings in advanced internal audit topics.
- C. Appraise internal auditors' performance and competencies at least annually and issue constructive feedback.
- D. Rotate internal auditors among different engagement assignments.

**Answer: D**

**NEW QUESTION 66**

- (Topic 1)

According to IIA guidance, when preparing the charter for the internal audit activity, the chief audit executive (CAE), board, and senior management should agree on which of the following?

- \* 1. The standards to be used by the internal audit activity.
- \* 2. The internal audit activity's code of ethics.
- \* 3. The CAE's reporting line.
- \* 4. The internal audit activity's responsibilities.

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

**Answer: C**

#### NEW QUESTION 70

- (Topic 1)

A multinational organization has asked the internal audit activity to assist in setting up the organization's risk management system. The chief audit executive (CAE) agrees to take on the engagement as a consultant. Which of the following tasks is appropriate for the CAE to undertake?

- A. Coordinate and facilitate risk workshops for management to attend.
- B. Establish the degree of risk appetite for management to accept.
- C. Set risk indicators and mitigation plans for management to implement.
- D. Determine the number of significant risks for management to report to the board.

**Answer: D**

#### NEW QUESTION 71

- (Topic 1)

According to IIA guidance, the results of a formal quality assessment should be reported to which of the following groups?

- A. The audit committee and senior management.
- B. The audit committee and the external auditors.
- C. Senior management and management of the audited area.
- D. Senior management and the external auditors.

**Answer: A**

#### NEW QUESTION 74

- (Topic 1)

A furniture manufacturer has installed a new fire sprinkler system at its central warehouse and canceled the existing fire insurance policy on that property. What change of risk response strategy does this course of action most likely reflect?

- A. From sharing to reduction.
- B. From acceptance to reduction.
- C. From sharing to avoidance.
- D. From acceptance to avoidance.

**Answer: A**

#### NEW QUESTION 78

CORRECT TEXT - (Topic 1)

According to IIA guidance, which of the following scenarios demonstrates an internal auditor exercising due professional care?

When auditing investments, the auditor identified instruments with which he was unfamiliar. He decided not to select that type of investment in his sample, as he did not have the knowledge needed to

- A. perform a proper assessment.
- B. An auditor was reviewing inventory counts conducted by the warehouse staff
- C. One truck containing an immaterial amount of inventory was off-site and wasn't verified by the auditor.
- D. An auditor visited a plant that produces a significant portion of the organization's inventory
- E. The day he arrived, the plant manager was out sick, so the auditor issued the report without interviewing the manager.
- F. An auditor in charge needed to have testing completed by the end of the month, but was behind schedule
- G. He identified a junior auditor to conduct the work for him on a complex area of the organization.

**Answer: A**

#### NEW QUESTION 79

- (Topic 1)

Which of the following is a weakness of observation as audit evidence?

- A. It cannot be used to test the completeness assertion.
- B. It cannot be used to test the existence assertion.
- C. It cannot be used to test the occurrence assertion.
- D. It cannot be relied upon because the evidence is not persuasive.

**Answer: A**

#### NEW QUESTION 84

- (Topic 1)

Which of the following actions would be characterized as a preventive control to safeguard inventory from the risk of theft?

- \* 1. Locking doors and physically securing inventory items.
- \* 2. Independently observing the receipt of materials.
- \* 3. Conducting monthly inventory counts.
- \* 4. Requiring the use of employee ID badges at all times.

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

**Answer: B**

#### NEW QUESTION 85

- (Topic 1)

Which segregation of duties would best reduce the risk of payroll fraud?

- A. Human resources personnel add employees, and payroll personnel process hours and enter employee bank account number
- B. Paychecks are automatically deposited in the employee's bank account.
- C. Human resources personnel add employees, payroll personnel process hours, and human resources personnel deliver paychecks to employees.
- D. Human resources personnel add employees, review and submit payroll hours to the payroll department for processing, and deliver paychecks to employees.
- E. Human resources personnel add employees and enter employee bank informatio
- F. Payroll personnel process hours, and paychecks are automatically deposited in the employee's bank account.

**Answer:** A

#### NEW QUESTION 89

- (Topic 1)

An organization is facing a financial downturn and needs to impose major budget reductions to all departments. According to MA guidance, which of the following actions is most appropriate for the board to take to evaluate the potential impact on the internal audit activity?

- A. Ask management to determine which internal audit engagements are lower risk and could be considered for removal from the annual audit plan.
- B. Ask appropriate stakeholders for their opinion on the potential impacts of reducing the scope of the internal audit plan.
- C. Ask the chief audit executive to determine whether budgetary limitations impede the ability of the internal audit activity to execute its responsibilities.
- D. Ask The human resources department to determine how the annual compensation and salary of the audit staff could be adjusted to achieve savings.

**Answer:** C

#### NEW QUESTION 92

- (Topic 1)

An internal auditor completed an audit of a bank's loan department and found all significant risks to be managed adequately through effective internal controls. Which of the following would be an appropriate conclusion to report to management?

- A. The residual risk is lower than or equal to the risk appetite.
- B. The residual risk is higher than or equal to the risk appetite.
- C. The inherent risk is lower than or equal to the risk tolerance.
- D. The inherent risk is higher than or equal to the risk tolerance.

**Answer:** A

#### NEW QUESTION 97

- (Topic 1)

When developing the organization's first risk universe, which of the following would the chief audit executive be least likely to consider?

- A. The amount of risk that an organization is willing to seek or accept.
- B. The extent and degree of interdependency for identified key risks.
- C. The boundaries established to manage the amount of risk taken.
- D. The exposure to risks following management's risk responses.

**Answer:** D

#### NEW QUESTION 101

- (Topic 1)

Which of the following statements accurately describes an internal auditor's responsibility with regard to due professional care?

- A. An internal auditor should express an opinion only when consensus with top management has been achieved.
- B. An internal auditor's opinion should be based on experience and free of all bias.
- C. An internal auditor's opinion should be based on factual evidence.
- D. An internal auditor's opinion should be limited to the effectiveness of internal controls.

**Answer:** C

#### NEW QUESTION 103

- (Topic 1)

As a matter of policy, the chief audit executive routinely rotates internal audit staff assignments and periodically interviews the staff to discuss the potential for conflicts of interest. These actions help fulfill which of the following internal audit mandates?

- A. Organizational independence.
- B. Professional objectivity.
- C. Due professional care.
- D. Individual proficiency.

**Answer:** B

#### NEW QUESTION 107

- (Topic 1)

Which of the following best demonstrates the authority of the internal audit activity?

- A. Suggesting alternatives to decision makers.
- B. Improving the integrity of information.

- C. Determining the scope of internal audit services.
- D. Achieving engagement objectives.

**Answer: C**

#### NEW QUESTION 111

- (Topic 1)

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annual snowfall for the coming winter. Which of the following best describes this type of risk?

- A. Residual.
- B. Net.
- C. Inherent.
- D. Accepted.

**Answer: C**

#### NEW QUESTION 112

- (Topic 1)

Which of the following would be considered a violation of The IIA's mandatory guidance on independence?

- A. The chief audit executive (CAE) reports functionally to the board and administratively to the chief financial officer.
- B. The board seeks senior management's recommendation before approving the annual salary adjustment of the CAE.
- C. The CAE confirms to the board, at least once every five years, the organizational independence of the internal audit activity.
- D. The CAE updates the internal audit charter and presents it to the board for approval periodically, not on a specific timeline.

**Answer: B**

#### NEW QUESTION 116

- (Topic 1)

An auditor in charge was reviewing the workpapers submitted by a newly hired internal auditor. She noted that the new auditor's analytical work did not include any rating or quantification of the risk assessment results, and she returned the workpapers for correction. Which section of the workpapers will the new auditor need to modify?

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

**Answer: C**

#### NEW QUESTION 121

- (Topic 1)

Which of the following are generally recognized as essential elements of a corporate social responsibility program?

- A. Human rights and the environment.
- B. Organizational governance and financial reporting.
- C. Fair operating practices and government regulation.
- D. Consumer issues and return on investment.

**Answer: A**

#### NEW QUESTION 126

- (Topic 1)

According to IIA guidance, which of the following practices by the chief audit executive (CAE) best enhances the organizational independence of the internal audit activity?

- A. CAE reviews and approves the annual audit plan.
- B. CAE meets privately with The CEO at least annually.
- C. CAE meets privately with The board at least annually.
- D. CAE reports to the board regarding audit staff performance evaluation and compensation.

**Answer: D**

#### NEW QUESTION 127

- (Topic 1)

According to The IIA's Code of Ethics, which of the following statements is true?

- A. When an internal auditor releases required information to a regulator, resulting in a significant loss through fines and penalties for the organization, he fails to add value.
- B. When an internal auditor limits the scope of the audit engagement after learning that management is hiding relevant information, he demonstrates integrity.
- C. When an internal auditor disagrees with the treatment received by workers in the organization's foreign subsidiary and alters the audit program to highlight the issue, he fails to demonstrate objectivity.
- D. When an internal auditor continues with an audit engagement, despite the audit client's claims that the work performed is unnecessary and redundant he fails to demonstrate competency.

**Answer: C**

#### NEW QUESTION 130

- (Topic 1)

Which of the following is the primary engagement responsibility of an entry-level internal auditor?

- A. Leadership.
- B. Documentation.
- C. Analysis.
- D. Reporting.

**Answer: C**

#### NEW QUESTION 135

- (Topic 1)

An organization is beginning to implement an enterprise risk management program. One of the first steps is to develop a common risk language. Which of the following statements about a common risk language is true?

- A. Management will be able to reduce inherent risk because they will have a better understanding of risk.
- B. Internal auditors will be able to reduce their sample sizes because controls will be more consistent.
- C. Stakeholders will have more assurance that the risks are assessed consistently.
- D. Decision makers will understand that the likelihood of missing or ineffective controls will be reduced.

**Answer: C**

#### NEW QUESTION 136

- (Topic 1)

The chief audit executive (CAE) has assigned an internal auditor to an upcoming engagement. Which of the following requirements would most likely indicate that the internal auditor was assigned to an assurance engagement?

- A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.
- B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.
- C. The assigned internal auditor must not assume management responsibilities while performing the engagement.
- D. The assigned internal auditor must maintain objectivity while performing the engagement.

**Answer: A**

#### NEW QUESTION 140

- (Topic 1)

An organization decides to take no action on one of its financial risks because the cost of implementing the control outweighs the value of the asset being protected. Which of the following best describes this risk strategy?

- A. Risk avoidance.
- B. Risk-benefit analysis.
- C. Risk sharing.
- D. Risk acceptance.

**Answer: D**

#### NEW QUESTION 143

- (Topic 1)

In the area of business acumen, which of the following competencies would be the sole responsibility of an internal audit staff member?

- A. Maintaining industry-specific knowledge appropriate to the organization.
- B. Assessing how IT contributes to organization objectives, risks, and relevance to audit.
- C. Maintaining technical aspects of accounting standards and reporting processes.
- D. Understanding regulatory and legal framework and assessing its relevance.

**Answer: D**

#### NEW QUESTION 145

- (Topic 1)

A new internal audit activity is creating its first charter. According to IIA guidance, which of the following objectives would be appropriate for inclusion in the charter?

- A. Continuously monitor the organization's overall risk activities in relation to its risk appetite.
- B. Evaluate the adequacy and effectiveness of the organization's governance activities.
- C. Oversee the establishment and administration of an effective risk management program.
- D. Assist management in implementing recommended control improvements.

**Answer: C**

#### NEW QUESTION 148

- (Topic 1)

During an audit, the client questions the internal audit activity's authority to perform procedures over fraud allegations. According to IIA guidance, which of the following would provide the most relevant support to respond to the client's concerns?

- A. Definition of Internal Auditing.

- B. MA Standards.
- C. Internal audit charter.
- D. The IIA's Code of Ethics.

**Answer:** C

#### NEW QUESTION 152

- (Topic 1)

A manufacturing line supervisor joins the internal audit activity for a two-year rotational job assignment and is assigned to an accounts receivable audit. With regard to this assignment, which of the following should be the primary concern of the audit manager?

- A. Due professional care.
- B. Individual independence.
- C. Individual objectivity.
- D. Organizational independence.

**Answer:** A

#### NEW QUESTION 155

- (Topic 1)

According to IIA guidance, which of the following must the internal auditor consider to meet the requirements for due professional care?

- A. The training courses necessary to enhance the internal auditor's knowledge, skills, and other competencies.
- B. The appropriateness of assurance procedures necessary to ensure all significant risks will be identified.
- C. The use of innovative technology and data analysis techniques.
- D. The extent of work needed to achieve the engagement's objectives.

**Answer:** D

#### NEW QUESTION 159

- (Topic 1)

An internal auditor who is carrying out an engagement to review controls related to corporate tax reporting must possess which of the following competencies?

- \* 1. Proficiency in analyzing key IT risks and controls.
- \* 2. The ability to recognize significant deviations from good business practices.
- \* 3. Knowledge of key indicators of fraud in tax reporting.
- \* 4. The ability to recognize the existence of problems related to tax accounting.

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

**Answer:** B

#### NEW QUESTION 164

- (Topic 1)

While performing an accounts payable engagement, a senior auditor wants to conduct several tests of controls for travel expenses. Which of the following actions are most appropriate for the senior auditor to undertake?

- \* 1. Ensure all tests use a random sampling technique.
- \* 2. Consider a judgmental approach for the sample size.
- \* 3. Assess testing errors through root cause analysis.
- \* 4. Ensure that the entire data set is tested.

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

**Answer:** C

#### NEW QUESTION 167

- (Topic 1)

Reviewing prior audit reports and supporting workpapers before an engagement starts enables an internal auditor to do which of the following?

- \* 1. To understand better the activity and processes that will be audited.
- \* 2. To identify the audit procedures that will be used during the engagement.
- \* 3. To ensure that matters of greatest vulnerability will be addressed.
- \* 4. To use the information obtained as evidence in the current engagement.

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

**Answer:** B

#### NEW QUESTION 168

- (Topic 1)

Which of the following documents is most appropriate in promoting the objectivity of the internal audit activity?

- A. Usage of IT system policy.
- B. Risk management framework.
- C. Acceptance of gifts policy.
- D. Personal responsibility policy.

**Answer: C**

#### NEW QUESTION 171

- (Topic 1)

Sometimes, internal audit staff may partner with operating managers to rank risks. Which of the following outcomes may be the most beneficial aspects of this strategy?

- \* 1. Reappraising risks levels.
- \* 2. Providing accurate information to management.
- \* 3. Marketing the internal audit activity.
- \* 4. Planning safeguards for assets in high-risk areas.

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

**Answer: B**

#### NEW QUESTION 174

- (Topic 1)

Which of the following is an example of a directive control?

- A. Segregation of duties.
- B. Exception reports.
- C. Incentive compensation plans.
- D. Automated reconciliations.

**Answer: C**

#### NEW QUESTION 176

- (Topic 1)

An organization invests its savings in a volatile stock with the potential for high gains rather than a mutual fund with a lower expected return and lower volatility. This best describes which of the following risk concepts?

- A. Risk identification.
- B. Risk appetite.
- C. Risk capacity.
- D. Risk tolerance.

**Answer: D**

#### NEW QUESTION 181

- (Topic 1)

Which of the following controls could an internal auditor reasonably conclude is effective by observing the physical controls of a large server room?

- A. Adequate signs are in place to assist in locating safety equipment.
- B. Servers are secured individually to their racks by locks.
- C. Foam fire extinguishers are operable to protect against electrical fires.
- D. Swipe card access is required to gain access to the server room.

**Answer: A**

#### NEW QUESTION 184

- (Topic 1)

A headquarters-based internal auditor has been sent to a major overseas subsidiary to conduct various engagements. Initially, the internal auditor spends time to become familiar with local customs and organization's practices while embarking on the first engagement. Which of the following competencies does the internal auditor exercise?

- A. Communication.
- B. Persuasion and collaboration.
- C. Business acumen.
- D. Governance, risk, and control.

**Answer: A**

#### NEW QUESTION 185

- (Topic 1)

An internal auditor wants to sample data to test an audit theory in a cost-effective way. Which of the following sampling strategies should she use?

- A. Statistical sampling only

- B. Nonstatistical sampling only
- C. A combination of both statistical and nonstatistical sampling.
- D. Neither approach to testing the audit theory would be cost effective.

**Answer: B**

#### NEW QUESTION 190

- (Topic 1)

A chief audit executive (CAE) is selecting an internal audit team to perform an audit engagement that requires a high level of knowledge in the areas of finance, investment portfolio management, and taxation. If neither the CAE nor the existing internal audit staff possess the required knowledge, which of the following actions should the CAE take?

- A. Postpone the audit until the CAE hires internal audit staff with the required knowledge.
- B. Ask the audit committee to decide the course of action.
- C. Select the most experienced auditors in the department to perform the engagement.
- D. Hire consultants who possess the required knowledge to perform the engagement.

**Answer: D**

#### NEW QUESTION 191

- (Topic 1)

Which of the following behaviors could represent a significant ethical risk if exhibited by an organization's board?

- A. Requesting a private meeting with senior management, without the presence of the chief audit executive.
- B. Intervening during an audit involving ethical wrongdoing.
- C. Discussing periodic reports of ethical breaches.
- D. Authorizing an investigation of an unsafe product.

**Answer: B**

#### NEW QUESTION 195

- (Topic 1)

Which of the following activities should the chief audit executive perform to ensure compliance with an organization's code of conduct?

- A. Act as an adviser to the committee responsible for reviewing violations of the code.
- B. Review and adjudicate all violations of the code of conduct.
- C. Lead the committee responsible for the oversight of the code.
- D. Implement a system of procedures to inform all employees of the code.

**Answer: A**

#### NEW QUESTION 197

- (Topic 1)

A medical insurance provider uses an electronic claims-submission process and suspects that a number of physicians have submitted claims for treatments that were not performed. Which of the following control procedures would be most effective to detect this type of fraud?

- A. Require the physician to submit a signed statement attesting that the treatments had been performed.
- B. Send confirmations to the physicians, requesting them to verify the exact nature of the claims submitted to the insurance provider.
- C. Develop an integrated test facility and submit false claims to verify that the system is detecting such claims on a consistent basis.
- D. Use computer software to identify abnormal claims based on the insured's age and medical history.

**Answer: D**

#### NEW QUESTION 199

- (Topic 1)

The chief audit executive (CAE) is planning to conduct an internal assessment of the internal audit activity (IAA). Part of this assessment will include benchmarking. According to IIA guidance, which of the following qualitative metrics would be appropriate for the CAE to use?

- \* 1. Average client customer satisfaction score for a given year.
- \* 2. Client survey comments on how to improve the IAA.
- \* 3. Auditor interviews once an audit has been completed.
- \* 4. Percentage of audits completed within 90 days.

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

**Answer: C**

#### NEW QUESTION 204

- (Topic 1)

An internal auditor needs to recommend a policy element to be included in an organization's code of ethics. Which of the following recommendations would be most effective?

- A. Ethics should vary with local customs in the organization's foreign operations.
- B. Whistleblowing should be discouraged because it can cause distrust among employees.
- C. Ethical behavior should be incorporated into performance evaluations.

D. Senior management should be granted specific exemptions to the code of ethics.

**Answer: C**

**NEW QUESTION 206**

- (Topic 1)

Which of the following combinations of conditions is most likely a red flag for fraud?

- A. The practice of surprise audits and the implementation of an employee support program.
- B. Hiring an employee with a prior fraud conviction and yearly management review.
- C. Occasional accounting department overrides and discontinuation of the anonymous fraud hotline due to infrequent use.
- D. A veteran employee in upper management experiencing financial difficulties and recently implemented enhanced controls.

**Answer: C**

**NEW QUESTION 209**

- (Topic 1)

Which of the following techniques would provide the most compelling evidence that a safety hazard exists within a manufacturing facility?

- A. Observation of the facility during operations.
- B. Questioning of facility management, including the facility safety officer.
- C. Analysis of facility operating reports, focusing on instances when breakdowns occurred.
- D. Review of records involving safety violations, filed by facility production employees.

**Answer: A**

**NEW QUESTION 211**

- (Topic 1)

According to IIA guidance, which of the following is least compliant with the requirements regarding an internal auditor's need for objectivity?

- A. An internal auditor assessed the effectiveness of controls over payroll software, which he had helped implement with a previous employer.
- B. An internal auditor participated in an audit of controls around absenteeism, despite providing some consultation on controls in this area earlier in the year.
- C. An internal auditor performed an assurance engagement for the effectiveness of accounts payable access controls, one of which he previously helped to design.
- D. An internal auditor, previously employed in the quality assurance operations area, performed a consulting engagement for the operations manager.

**Answer: C**

**NEW QUESTION 214**

- (Topic 1)

Which of the following are components of the ISO 31000 risk management process?

- \* 1. Setting the context.
- \* 2. Risk treatment.
- \* 3. Risk avoidance.
- \* 4. Communication.

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

**Answer: A**

**NEW QUESTION 218**

- (Topic 1)

What is the purpose of a secondary control?

- A. It replaces primary controls that are either ineffective or cannot fully mitigate a risk.
- B. It partially reduces the residual risk level when a key control does not operate effectively.
- C. It combines with other controls to help reduce significant risk exposures to an acceptable level.
- D. It helps to ensure the completeness and accuracy of automated controls in a system environment.

**Answer: C**

**NEW QUESTION 223**

- (Topic 1)

An internal auditor in a small broadcasting organization was assigned to review the revenue collection process. The auditor discovered that some checks from three customers were never recorded in the organization's financial records. Which of the following documents would be the least useful for the auditor to verify the finding?

- A. Bank statements.
- B. Customer confirmation letters.
- C. Copies of sales invoices.
- D. Copies of deposit slips.

**Answer: D**

#### NEW QUESTION 226

- (Topic 1)

An internal auditor uses a predefined macro provided in a popular spreadsheet application to verify the present value of the organization's investments. Which of the following is the most appropriate course of action regarding the auditor's use of this functionality?

- A. The auditor should accept the calculations generated by the function, as any further work or documentation would be inefficient.
- B. The auditor should perform a manual recalculation of several results to validate and document the results.
- C. The auditor should review the programming of the macro before its use to ensure that it is appropriate for the required calculations.
- D. The auditor should tabulate the results in the spreadsheet to ensure the macro has generated the correct results for all calculations.

**Answer: B**

#### NEW QUESTION 227

- (Topic 1)

Who is responsible for setting the risk appetite?

- A. External auditors.
- B. Chief risk officer.
- C. Operations management.
- D. Board of directors.

**Answer: D**

#### NEW QUESTION 230

- (Topic 1)

An internal audit activity is using the auditing-by-element approach to audit the organization's controls around corporate social responsibility. Which of the following would be an element for the internal audit activity to consider?

- A. Working conditions.
- B. Employees' families.
- C. Marketplace competition.
- D. Shareholders and investors.

**Answer: B**

#### NEW QUESTION 233

- (Topic 1)

An internal audit charter, approved by the board, restricts the internal audit activity to providing assurance only on the reliability of financial information and the effectiveness of internal accounting controls. Which of the following statements is true regarding the extent to which the external auditor may rely on the internal audit activity's work?

- A. The external auditor may make full use of the work, as the audit charter is very specific as to the work the internal audit activity may undertake.
- B. The external auditor may use the work, as the board has approved the charter, thus taking responsibility for any deficiencies.
- C. The external auditor must disregard the work, as the scope of the charter may introduce bias and result in a lack of due professional care.
- D. The external auditor may use the work with caution, due to the internal audit activity's scope and responsibility restrictions.

**Answer: D**

#### NEW QUESTION 236

- (Topic 1)

Which of the following describes a key characteristic related to effective organizational communication?

- A. Comprehensive supervisory and verification procedures.
- B. A well-designed system of internal controls.
- C. A culture of integrity and transparency.
- D. Unique operating environments with varying complexity.

**Answer: B**

#### NEW QUESTION 241

- (Topic 1)

Which two of the following are preventive controls in a check disbursement process?

- \* 1. Daily reconciliation of the bank account used for check disbursements and prompt follow-up of un-reconciled items.
- \* 2. Segregation of the following duties: establishing new vendors, approving checks, and reconciling the bank account.
- \* 3. An activity report detailing who accesses the check disbursement system and the nature of any action taken in the system.
- \* 4. Evidence of strong access controls ensuring that authorized individuals have access only to the functions related to their responsibilities.

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

**Answer: D**

#### NEW QUESTION 243

- (Topic 1)

Which of the following items should the chief audit executive disclose to senior management regarding the results of the internal audit activity's quality

assessments?

- A. The internal audit activity's plan for resource allocation.
- B. The amount of the organization's potential loss prevented by the risk-based auditing of the internal audit activity.
- C. The number of audits from the annual internal audit plan that were completed last year.
- D. The qualifications and independence of the assessment Team.

**Answer: B**

#### NEW QUESTION 247

- (Topic 1)

Which of the following statements is true regarding assurance services provided to clients outside of the organization?

- A. Assurance services for outside clients are not covered under the internal audit charter.
- B. Assurance services for outside clients must be approved on a case-by-case basis by the board of directors.
- C. The nature of assurance services for outside clients should be defined in the internal audit charter.
- D. The nature of assurance services for outside clients is the same as for internal clients.

**Answer: C**

#### NEW QUESTION 252

- (Topic 2)

Which of the following is the primary reason the chief audit executive should consider the organization's strategic plans when developing the annual audit plan?

- A. Strategic plans reflect the organization's business objectives and overall attitude toward risk.
- B. Strategic plans are helpful to identify major areas of activity, which may direct the allocation of internal audit activity resources.
- C. Strategic plans are likely to show areas of weak financial controls.
- D. The strategic plan is a relatively stable document on which to base audit planning.

**Answer: A**

#### NEW QUESTION 257

- (Topic 2)

Due to price risk from the foreign currency purchase of aviation fuel, an airliner has purchased forward contracts to hedge against fluctuations in the exchange rate. When recalculating the exchange losses from individual purchases of jet fuel, which of the following details does the internal auditor need to validate?

- \* 1. The hedge documentation designating the hedge.
- \* 2. The spot exchange rate on the transaction date.
- \* 3. The terms of the forward contract.
- \* 4. The amount of fuel purchased.

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

**Answer: C**

#### NEW QUESTION 261

- (Topic 2)

The board has asked the internal audit activity (IAA) to be involved in the organization's enterprise risk management process. Which of the following activities is appropriate for IAA to perform without safeguards?

- A. Coach management in responding to risks.
- B. Develop risk management strategies for board approval.
- C. Facilitate identification and evaluation of risks.
- D. Evaluate risk management processes.

**Answer: D**

#### NEW QUESTION 265

- (Topic 2)

An internal auditor submitted a report containing recommendations for management to enhance internal controls related to investments. To follow up, which of the following is the most appropriate action for the internal auditor to take?

- A. Observe corrective measures.
- B. Seek a management assurance declaration.
- C. Follow up during the next scheduled audit.
- D. Conduct appropriate testing to verify management responses.

**Answer: D**

#### NEW QUESTION 267

- (Topic 2)

Which of the following statements describes an engagement planning best practice?

- A. It is best to determine planning activities on a case-by-case basis because they can vary widely from engagement to engagement.
- B. If the engagement subject matter is not unique, it is not necessary to outline specific testing procedures during the planning phase.

- C. The engagement plan includes the expected distribution of the audit results, which should be kept confidential until the audit report is final.
- D. Engagement planning activities include setting engagement objectives that align with audit client's business objectives.

**Answer:** D

#### NEW QUESTION 268

- (Topic 2)

Which of the following factors would the auditor in charge be least likely to consider when assigning tasks to audit team members for an engagement?

- A. The amount of experience the auditors have conducting audits in the specific area of the organization.
- B. The availability of the auditors in relation to the availability of key client staff.
- C. Whether the budgeted hours are sufficient to complete the audit within the current scope.
- D. Whether outside resources will be needed, and their availability.

**Answer:** C

#### NEW QUESTION 271

- (Topic 2)

During an audit of the accounts receivable (AR) process, an internal auditor noted that reconciliations are still not performed regularly by the AR staff, a recommendation that was made following a previous audit. Monitoring by the financial reporting function has failed to detect the shortcoming. Both the financial reporting function and AR report to the controller, who is responsible for implementing action plans. Which of the following supports the internal auditor's decision to combine both observations into one reported finding?

- A. The observation was made during the same audit, and the action plan has a common owner.
- B. The observation relates to the same control activity within a common process.
- C. The observation has a common control, and it was noted in a prior audit.
- D. The observation has a common process, and the action plan for the observation has a common owner.

**Answer:** D

#### NEW QUESTION 272

- (Topic 2)

According to IIA guidance, which of the following is true when the internal audit activity is asked to investigate potential ethics violations in a foreign subsidiary?

- A. Communication of any internal ethics violations to external parties may occur with appropriate safeguards.
- B. Cultural impacts are less critical where the organization practices uniform policies around the globe.
- C. Cross-cultural differences should always be handled by the staff of the same cultural background.
- D. Local law enforcement should be involved as they are more familiar with the applicable local laws.

**Answer:** A

#### NEW QUESTION 276

- (Topic 2)

According to IIA guidance, which of the following statements are true regarding the internal audit plan?

- \* 1. The audit plan is based on an assessment of risks to the organization.
- \* 2. The audit plan is designed to determine the effectiveness of the organization's risk management process.
- \* 3. The audit plan is developed by senior management of the organization.
- \* 4. The audit plan is aligned with the organization's goals.

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

**Answer:** C

#### NEW QUESTION 281

- (Topic 2)

An internal auditor and engagement client are deadlocked over the auditor's differing opinion with management on the adequacy of access controls for a major system. Which of the following strategies would be the most helpful in resolving this dispute?

- A. Conduct a joint brainstorming session with management.
- B. Ask the chief audit executive to mediate.
- C. Disclose the client's differing opinion in the final report.
- D. Escalate the issue to senior management for a decision.

**Answer:** A

#### NEW QUESTION 282

- (Topic 2)

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

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

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

**Answer:** B

**NEW QUESTION 286**

- (Topic 2)

Which of the following components should be included in an audit finding?

- \* 1. The scope of the audit.
- \* 2. The standard(s) used by the auditor to make the evaluation.
- \* 3. The engagement's objectives.
- \* 4. The factual evidence that the internal auditor found in the course of the examination.

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

**Answer:** C

**NEW QUESTION 290**

- (Topic 2)

According to the Standards, which of the following is least important in determining the adequacy of an annual audit plan?

- A. Sufficiency.
- B. Appropriateness.
- C. Effective deployment.
- D. Cost effectiveness.

**Answer:** D

**NEW QUESTION 293**

- (Topic 2)

Which of the following statements is false regarding roles and responsibilities pertaining to risk management and control?

- A. Senior management is charged with overseeing the establishment risk management and control processes.
- B. The chief audit executive is responsible for overseeing the evaluation risk management and control processes.
- C. Operating managers are responsible for assessing risks and controls in their departments.
- D. Internal auditors provide assurance about risk management and control process effectiveness.

**Answer:** B

**NEW QUESTION 294**

- (Topic 2)

According to IIA guidance, which of the following accurately describes the responsibilities of the chief audit executive with respect to the final audit report?

- \* 1. Coordinate post-engagement conferences to discuss the final audit report with management.
- \* 2. Include management's responses in the final audit report.
- \* 3. Review and approve the final audit report.
- \* 4. Determine who will receive the final audit report.

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

**Answer:** D

**NEW QUESTION 295**

- (Topic 2)

According to IIA guidance, which of the following are the most important objectives for helping to ensure the appropriate completion of an engagement?

- \* 1. Coordinate audit team members to ensure the efficient execution of all engagement procedures.
- \* 2. Confirm engagement workpapers properly support the observations, recommendations, and conclusions.
- \* 3. Provide structured learning opportunities for engagement auditors when possible.
- \* 4. Ensure engagement objectives are reviewed for satisfactory achievement and are documented properly.

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

**Answer:** B

**NEW QUESTION 298**

- (Topic 2)

Which of the following is an appropriate role for the internal audit activity with regard to the organization's risk management program?

- A. Identify and manage risks in line with the organization's risk appetite.
- B. Ensure that a proper and effective risk management process exists.
- C. Attain an adequate understanding of the organization's key risk mitigation strategies.
- D. Identify and ensure that appropriate controls exist to mitigate risks.

**Answer: C**

#### NEW QUESTION 301

- (Topic 2)

During a fraud interview, it was discovered that unquestioned authority enabled a vice president to steal funds from the organization. Which of the following best describes this condition?

- A. Scheme.
- B. Opportunity.
- C. Rationalization.
- D. Pressure.

**Answer: B**

#### NEW QUESTION 306

- (Topic 2)

According to IIA guidance, which of the following factors should the auditor in charge consider when determining the resource requirements for an audit engagement?

- A. The number, experience, and availability of audit staff as well as the nature, complexity, and time constraints of the engagement.
- B. The appropriateness and sufficiency of resources and the ability to coordinate with external auditors.
- C. The number, proficiency, experience, and availability of audit staff as well as the ability to coordinate with external auditors.
- D. The appropriateness and sufficiency of resources as well as the nature, complexity, and time constraints of the engagement.

**Answer: D**

#### NEW QUESTION 307

- (Topic 2)

The chief risk officer (CRO) of a large manufacturing organization decided to facilitate a workshop for process managers and staff to identify opportunities for improving productivity and reducing defects. Which of the following is the most likely reason the CRO chose the workshop approach?

- A. It minimizes the amount of time spent and cost incurred to gather the necessary information.
- B. Responses can be confidential, thus encouraging participants to be candid expressing their concerns.
- C. Workshops do not require extensive facilitation skills and are therefore ideal for nonauditors.
- D. Workshop participants have an opportunity to learn while contributing ideas toward the objectives.

**Answer: D**

#### NEW QUESTION 312

- (Topic 2)

An employee in the sales department completes a purchase requisition and forwards it to the purchaser. The purchaser places competitive bids and orders the requested items using approved purchase orders. When the employee receives the ordered items, she forwards the packing slips to the accounts payable department. The invoice for the ordered items is sent directly to the sales department, and an administrative assistant in the sales department forwards the invoices to the accounts payable department for payment. Which of the following audit steps best addresses the risk of fraud in the cash receipts process?

- A. Verify that approvals of purchasing documents comply with the authority matrix.
- B. Observe whether the purchase orders are sequentially numbered.
- C. Examine whether the sales department supervisor approves invoices for payment.
- D. Determine whether the accounts payable department reconciles all purchasing documents prior to payment.

**Answer: C**

#### NEW QUESTION 314

- (Topic 2)

Which of the following best illustrates the primary focus of a risk-based approach to control self-assessment?

- A. To evaluate controls regarding the computer security of an oil refinery.
- B. To examine the processes involved in exploring, developing, and operating a gold mine.
- C. To assess the likelihood and impact of events associated with operating a finished goods warehouse.
- D. To link a financial institution's business objectives to a work unit responsible for the associated risk.

**Answer: C**

#### NEW QUESTION 316

- (Topic 2)

The internal audit activity (IAA) wants to measure its performance related to the quality of audit recommendations. Which of the following client survey questions would best help the IAA meet this objective?

- A. Were audit findings relevant and useful to management?
- B. Does the audit report format present issues clearly and concisely?
- C. Does the IAA work with a high degree of professionalism and objectivity?
- D. Were the findings reported in a timely manner?

Answer: A

**NEW QUESTION 317**

- (Topic 2)

An internal auditor is conducting an assessment of the purchasing department. She has worked the full amount of hours budgeted for the engagement; however, the audit objectives are not yet complete. According to IIA guidance, which of the following are appropriate options available to the chief audit executive?

- \* 1. Allow the auditor to decide whether to extend the audit engagement.
- \* 2. Determine whether the work already completed is sufficient to conclude the engagement.
- \* 3. Provide the auditor feedback on areas of improvement for future engagements.
- \* 4. Provide the auditor with instructions and directions to complete the audit.

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

Answer: D

**NEW QUESTION 320**

- (Topic 2)

It is close to the fiscal year end for a government agency, and the chief audit executive (CAE) has the following items to submit to either the board or the chief executive officer (CEO) for approval. According to IIA guidance, which of the following items should be submitted only to the CEO?

- A. The internal audit risk assessment and audit plan for the next fiscal year.
- B. The internal audit budget and resource plan for the coming fiscal year.
- C. A request for an increase of the CAE's salary for the next fiscal year.
- D. The evaluation and compensation of the internal audit team.

Answer: D

**NEW QUESTION 321**

- (Topic 2)

According to IIA guidance, which of the following statements is false regarding a review of the controls in place to prevent fraud?

- A. The review should focus on the efficiency of the controls in place to prevent fraud.
- B. The scope of the review does not need to include all operating areas of the organization.
- C. The cost of the control should be compared to the benefit of mitigating the related risk.
- D. The review should assess whether the internal controls can be circumvented.

Answer: A

**NEW QUESTION 325**

- (Topic 2)

Which of the following has the greatest effect on the efficiency of an audit?

- A. The complexity of deficiency findings.
- B. The adequacy of preliminary survey information.
- C. The organization and content of workpapers.
- D. The method and amount of supporting detail used for the audit report.

Answer: B

**NEW QUESTION 328**

- (Topic 2)

Which of the following is not a primary purpose for conducting a walk-through during the initial stages of an assurance engagement?

- A. To help develop process maps.
- B. To determine segregation of duties.
- C. To identify residual risks.
- D. To test the adequacy of controls.

Answer: D

**NEW QUESTION 331**

- (Topic 2)

Which of the following is an appropriate responsibility for the internal audit activity with regard to the organization's risk management program?

- A. Identifying and managing risks in line with the entity's risk appetite.
- B. Ensuring that a proper and effective risk management process exists.
- C. Attaining an adequate understanding of the entity's key mitigation strategies.
- D. Identifying and ensuring that appropriate controls exist to mitigate risks.

Answer: C

**NEW QUESTION 335**

- (Topic 2)

An audit client responded to recommendations from a recent consulting engagement. The client indicated that several recommended process improvements would not be implemented. Which of the following actions should the internal audit activity take in response?

- A. Escalate the unresolved issues to the board, because they could pose significant risk exposures to the organization.
- B. Confirm the decision with management and document this decision in the audit file.
- C. Document the issue in the audit file and follow up until the issues are resolved.
- D. Initiate an assurance engagement on the unresolved issues.

**Answer: B**

#### NEW QUESTION 340

- (Topic 2)

Which of the following evaluation criteria would be the most useful to help the chief audit executive determine whether an external service provider possesses the knowledge, skills, and other competencies needed to perform a review?

- A. The financial interest the service provider may have in the organization.
- B. The relationship the service provider may have had with the organization or the activities being reviewed.
- C. Compensation or other incentives that may be applicable to the service provider.
- D. The service provider's experience in the type of work being considered.

**Answer: D**

#### NEW QUESTION 342

- (Topic 2)

An organization's internal audit plan includes a recurring assurance review of the human resources (HR) department. Which of the following statements is true regarding preliminary communication between the auditor in charge (AIC) and the HR department?

- \* 1. The AIC should notify HR management when the draft audit plan is being developed, as a courtesy.
- \* 2. The AIC should notify HR management before the planning stage begins.
- \* 3. The AIC should schedule formal status meetings with HR management at the start of the engagement.
- \* 4. The AIC should finalize the scope of the engagement before communicating with HR management.

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

**Answer: C**

#### NEW QUESTION 345

- (Topic 2)

Which of the following would not be a typical activity for the chief audit executive to perform following an audit engagement?

- A. Report follow-up activities to senior management.
- B. Implement follow-up procedures to evaluate residual risk.
- C. Determine the costs of implementing the recommendations.
- D. Evaluate the extent of improvements.

**Answer: C**

#### NEW QUESTION 347

- (Topic 2)

An internal auditor notes that employees continue to violate segregation-of-duty controls in several areas of the finance department, despite previous audit recommendations. Which of the following recommendations is the most appropriate to address this concern?

- A. Recommend additional segregation-of-duty reviews.
- B. Recommend appropriate awareness training for all finance department staff.
- C. Recommend rotating finance staff in this area.
- D. Recommend that management address these concerns immediately.

**Answer: B**

#### NEW QUESTION 352

- (Topic 2)

A large retail organization, which sells most of its products online, experiences a computer hacking incident. The chief IT officer immediately investigates the incident and concludes that the attempt was not successful. The chief audit executive (CAE) learns of the attack in a casual conversation with an IT auditor. Which of the following actions should the CAE take?

- \* 1. Meet with the chief IT officer to discuss the report and control improvements that will be implemented as a result of the security breach, if any.
- \* 2. Immediately inform the chair of the audit committee of the security breach, because thus far only the chief IT officer is aware of the incident.
- \* 3. Meet with the IT auditor to develop an appropriate audit program to review the organization's Internet-based sales process and key controls.
- \* 4. Include the incident in the next quarterly report to the audit committee.

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

Answer: A

#### NEW QUESTION 356

- (Topic 2)

Which of the following is a justifiable reason for omitting advance client notice when planning an audit engagement?

- A. Advance notice may result in management making corrections to reduce the number of potential deficiencies.
- B. Previous management action plans addressing prior internal audit recommendations remain incomplete.
- C. The engagement includes audit assurance procedures such as sensitive or restricted asset verifications.
- D. The audit engagement has already been communicated and approved through the annual audit plan.

Answer: C

#### NEW QUESTION 360

- (Topic 2)

According to IIA guidance, which of the following is true regarding the exit conference for an internal audit engagement?

- A. A primary purpose of the exit conference is to provide for the timely communication of observations that call for immediate management action.
- B. Both the chief audit executive and the chief executive over the activity or function reviewed must attend the exit conference to validate the findings.
- C. The exit conference provides only anticipated results for inclusion in the final audit communication.
- D. During the exit conference, the performance of the internal auditors who executed the engagement is reviewed.

Answer: C

#### NEW QUESTION 365

- (Topic 2)

While conducting an audit of a third party's Web-based payment processor, an internal auditor discovers that a programming error allows customers to create multiple accounts for a single mailing address. Management agrees to correct the program and notify customers with multiple accounts that the accounts will be consolidated. Which of the following actions should the auditor take?

- \* 1. Schedule a follow-up review to verify that the program was corrected and the accounts were consolidated.
- \* 2. Evaluate the adequacy and effectiveness of the corrective action proposed by management.
- \* 3. Amend the scope of the subsequent audit to verify that the program was corrected and that accounts were consolidated.
- \* 4. Submit management's plan of action to the external auditors for additional review.

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

Answer: A

#### NEW QUESTION 368

- (Topic 2)

Which of the following factors should a chief audit executive consider when determining the audit universe?

- \* 1. Components of the organization's strategic plan.
- \* 2. Inputs from senior management and the board.
- \* 3. Views of competitors and business associates.
- \* 4. Results of exit interviews with departing employees.

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

Answer: A

#### NEW QUESTION 372

- (Topic 2)

A manufacturer is under contract to produce and deliver a number of aircraft to a major airline. As part of the contract, the manufacturer is also providing training to the airline's pilots. At the time of the audit, the delivery of the aircraft had fallen substantially behind schedule while the training had already been completed. If half of the aircraft under contract have been delivered, which of the following should the internal auditor expect to be accounted for in the general ledger?

- A. Training costs allocated to the number of aircraft delivered, and the cost of actual production hours completed to date.
- B. All completed training costs, and the cost of actual production hours completed to date.
- C. Training costs allocated to the number of aircraft delivered, and 50% of contracted production costs.
- D. All completed training costs, and 50% of the contracted production costs.

Answer: D

#### NEW QUESTION 373

- (Topic 2)

An audit identified a number of weaknesses in the configuration of a critical client/server system. Although some of the weaknesses were corrected prior to the issuance of the audit report, correction of the rest will require between 6 and 18 months for completion. Consequently, management has developed a detailed action plan, with anticipated completion dates, for addressing the weaknesses. What is the most appropriate course of action for the chief audit executive to take?

- A. Assess the status of corrective action during a follow-up audit engagement after the action plan has been completed.
- B. Assess the effectiveness of corrections by reviewing statistics related to unplanned system outages, and denials of service.

- C. Reassign information systems auditors to assist in implementing management's action plan.
- D. Evaluate the ability of the action plan to correct the weaknesses and monitor key dates and deliverables.

**Answer:** D

#### NEW QUESTION 375

- (Topic 2)

After the team member who specialized in fraud investigations left the internal audit team, the chief audit executive decided to outsource fraud investigations to a third party service provider on an as needed basis. Which of the following is most likely to be a disadvantage of this outsourcing decision?

- A. Cost.
- B. Independence.
- C. Familiarity.
- D. Flexibility.

**Answer:** C

#### NEW QUESTION 377

- (Topic 2)

During an assurance engagement, an internal auditor noted that the time staff spent accessing customer information in large Excel spreadsheets could be reduced significantly through the use of macros. The auditor would like to train staff on how to use the macros. Which of the following is the most appropriate course of action for the internal auditor to take?

- A. The auditor must not perform the training, because any task to improve the business process could impact audit independence.
- B. The auditor must create a new, separate consulting engagement with the business process owner prior to performing the improvement task.
- C. The auditor should get permission to extend the current engagement, and with the process owner's approval, perform the improvement task.
- D. The auditor may proceed with the improvement task without obtaining formal approval, because the task is voluntary and not time-intensive.

**Answer:** C

#### NEW QUESTION 378

- (Topic 2)

A chief audit executive is preparing interview questions for the upcoming recruitment of a senior internal auditor. According to IIA guidance, which of the following attributes shows a candidate's ability to probe further when reviewing incidents that have the appearance of misbehavior?

- A. Integrity.
- B. Flexibility.
- C. Initiative.
- D. Curiosity.

**Answer:** D

#### NEW QUESTION 381

- (Topic 2)

Which of the following would most likely cause an internal auditor to consider adding fraud work steps to the audit program?

- A. Improper segregation of duties.
- B. Incentives and bonus programs.
- C. An employee's reported concerns.
- D. Lack of an ethics policy.

**Answer:** C

#### NEW QUESTION 382

- (Topic 2)

Which of the following is not a primary reason for outsourcing a portion of the internal audit activity?

- A. To gain access to a wider variety of skills, competencies and best practices.
- B. To complement existing expertise with a required skill and competency for a particular audit engagement.
- C. To focus on and strengthen core audit competencies.
- D. To provide the organization with appropriate contingency planning for the internal audit function.

**Answer:** D

#### NEW QUESTION 387

- (Topic 2)

Which of the following is least likely to help ensure that risk is considered in a work program?

- A. Risks are discussed with audit client.
- B. All available information from the risk-based plan is used.
- C. Client efforts to affect risk management are considered.
- D. Prior risk assessments are considered.

**Answer:** D

#### NEW QUESTION 390

- (Topic 2)

According to IIA guidance, which of the following would not be a consideration for the internal audit activity (IAA) when determining the need to follow-up on recommendations?

- A. Degree of effort and cost needed to correct the reported condition.
- B. Complexity of the corrective action.
- C. Impact that may result should the corrective action fail.
- D. Amount of resources required to conduct the follow-up activities.

**Answer: D**

#### NEW QUESTION 394

- (Topic 2)

Which of the following is not a direct benefit of control self-assessment (CSA)?

- A. CSA allows management to have input into the audit plan.
- B. CSA allows process owners to identify, evaluate, and recommend improving control deficiencies.
- C. CSA can improve the control environment.
- D. CSA increases control consciousness.

**Answer: A**

#### NEW QUESTION 395

- (Topic 2)

Which of the following statements is false regarding audit criteria?

- A. Audit criteria should be consistent across audit assignments.
- B. Audit criteria should represent reasonable standards against which to assess existing conditions.
- C. Audit criteria should provide flexibility but allow identification of nonadherence.
- D. Audit criteria should equate to good or acceptable management practices.

**Answer: A**

#### NEW QUESTION 398

- (Topic 2)

Which of the following behaviors could represent a significant ethical risk if exhibited by an organization's board?

- \* 1. Intervening during an audit involving ethical wrongdoing.
- \* 2. Discussing periodic reports of ethical breaches.
- \* 3. Authorizing an investigation of an unsafe product.
- \* 4. Negotiating a settlement of an employee claim for personal damages.

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

**Answer: B**

#### NEW QUESTION 402

- (Topic 2)

Which of the following is not an outcome of control self-assessment?

- A. Informal, soft controls are omitted, and greater focus is placed on hard controls.
- B. The entire objectives-risks-controls infrastructure of an organization is subject to greater monitoring and continuous improvement.
- C. Internal auditors become involved in and knowledgeable about the self-assessment process.
- D. Nonaudit employees become experienced in assessing controls and associating control processes with managing risks.

**Answer: A**

#### NEW QUESTION 404

- (Topic 2)

Which of the following situations would justify the removal of a finding from the final audit report?

- A. Management disagrees with the report findings and conclusions in their responses.
- B. Management has already satisfactorily completed the recommended corrective action.
- C. Management has provided additional information that contradicts the findings.
- D. Management believes that the finding is insignificant and unfairly included in the report.

**Answer: C**

#### NEW QUESTION 408

- (Topic 3)

According to IIA guidance, which of the following would be the best first step to manage risk when a third party is overseeing the organization's network and data?

- A. Creating a comprehensive reporting system for vendors to demonstrate their ongoing due diligence in network operations
- B. Drafting a strong contract that requires regular vendor control reports and a right-to-audit clause.

- C. Applying administrative privileges to ensure right-to-access controls are appropriate
- D. Creating a standing cybersecurity committee to identify and manage risks related to data security

**Answer: B**

**NEW QUESTION 413**

- (Topic 3)

A rapidly expanding retail organization continues to be tightly controlled by its original small management team. Which of the following is a potential risk in this vertically centralized organization?

- A. Lack of coordination among different business units.
- B. Operational decisions are inconsistent with organizational goals.
- C. Suboptimal decision-making.
- D. Duplication of business activities.

**Answer: C**

**NEW QUESTION 414**

- (Topic 3)

Which of the following is a key component of an organization's cybersecurity governance?

- A. Administrators monitoring the use, assignment and configuration of privileges on the network.
- B. The IT department establishing^ implementing, and actively managing security configurations.
- C. Management identifying and classifying the types of critical data in the organization's system
- D. Senior management of the organization setting the cybersecurity policy

**Answer: D**

**NEW QUESTION 417**

- (Topic 3)

Which of the following are included in ISO 31000 risk principles and guidelines?

- A. Standards, framework, and process.
- B. Standards, assessments, and process.
- C. Principles, framework, and process.
- D. Principles, practices, and process.

**Answer: C**

**NEW QUESTION 418**

- (Topic 3)

Which of the following is not a potential area of concern when an internal auditor places reliance on spreadsheets developed by users?

- A. Increasing complexity over time.
- B. Interface with corporate systems.
- C. Ability to meet user needs.
- D. Hidden data columns or worksheets.

**Answer: C**

**NEW QUESTION 422**

- (Topic 3)

Which of the following purchasing scenarios would gain the greatest benefit from implementing electronic data interchange?

- A. A time-sensitive just-in-time purchase environment.
- B. A large volume of custom purchases.
- C. A variable volume sensitive to material cost.
- D. A currently inefficient purchasing process.

**Answer: A**

**NEW QUESTION 425**

- (Topic 3)

Which of the following statements are true regarding the use of heat maps as risk assessment tools?

- \* 1. They focus primarily on known risks, limiting the ability to identify new risks.
- \* 2. They rely heavily on objective assessments and related risk tolerances.
- \* 3. They are too complex to provide an easily understandable view of key risks.
- \* 4. They are helpful but limited in value in a rapidly changing environment.

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

**Answer: B**

**NEW QUESTION 428**

- (Topic 3)

Which of the following stages of contracting focuses on aligning the markets with objectives of the organization?

- A. Initiation stage
- B. Bidding stage
- C. Development stage
- D. Negotiation stage

**Answer: D**

**NEW QUESTION 433**

- (Topic 3)

Which of the following statements about matrix organizations is false?

- A. In a matrix organization, conflict between functional and product managers may arise.
- B. In a matrix organization, staff under dual command is more likely to suffer stress at work.
- C. Matrix organizations offer the advantage of greater flexibility.
- D. Matrix organizations minimize costs and simplify communication.

**Answer: D**

**NEW QUESTION 438**

- (Topic 3)

Technological uncertainty, subsidy, and spin-offs are usually characteristics of:

- A. Fragmented industries.
- B. Declining industries.
- C. Mature industries.
- D. Emerging industries.

**Answer: D**

**NEW QUESTION 441**

- (Topic 3)

According to Porter, which of the following is associated with fragmented industries?

- A. Weak entrance barriers.
- B. Significant scale economies.
- C. Steep experience curve.
- D. Strong negotiation power with suppliers.

**Answer: A**

**NEW QUESTION 443**

- (Topic 3)

Which of the following types of data analytics would be used by a hospital to determine which patients are likely to require readmittance for additional treatment?

- A. Predictive analytics
- B. Prescriptive analytics
- C. Descriptive analytics
- D. Diagnostic analytics

**Answer: A**

**NEW QUESTION 446**

- (Topic 3)

Which stage in the industry life cycle is characterized by many different product variations?

- A. Introduction.
- B. Growth.
- C. Maturity.
- D. Decline.

**Answer: A**

**NEW QUESTION 449**

- (Topic 3)

Which of the following statements is true regarding the use of public key encryption to secure data while it is being transmitted across a network?

- A. Both the key used to encrypt the data and the key used to decrypt the data are made public.
- B. The key used to encrypt the data is kept private but the key used to decrypt the data is made public.
- C. The key used to encrypt the data is made public but the key used to decrypt the data is kept private.
- D. Both the key used to encrypt the data and the key used to decrypt the data are made private.

**Answer: C**

**NEW QUESTION 454**

- (Topic 3)

Which of the following risks is best addressed by encryption?

- A. Information integrity risk.
- B. Privacy risk
- C. Access risk
- D. Software risk

**Answer: A**

**NEW QUESTION 456**

- (Topic 3)

When granting third parties temporary access to an entity's computer systems, which of the following is the most effective control?

- A. Access is approved by the supervising manager.
- B. User accounts specify expiration dates and are based on services provided.
- C. Administrator access is provided for a limited period.
- D. User accounts are deleted when the work is completed.

**Answer: B**

**NEW QUESTION 460**

- (Topic 3)

Which of the following statements is false regarding the internal audit approach when a set of standards other than The IIA's Standards is applicable to a specific engagement?

- A. The internal auditor may cite the use of other standards during audit communications.
- B. If the other standards are government-issued, the internal auditor should apply them in conjunction with The IIA's Standards.
- C. If there are inconsistencies between the other standards and The IIA's Standards, the internal auditor must use the more restrictive standards.
- D. If there are inconsistencies between the other standards and The IIA's Standards, the internal auditor must use the less restrictive standards.

**Answer: D**

**NEW QUESTION 464**

- (Topic 3)

According to MA guidance on IT which of the following best describes a but recovery and restore processes have not been defined?

- A. Hot recovery plan
- B. Warm recovery plan
- C. Cold recovery plan.
- D. Absence of recovery plan

**Answer: D**

**NEW QUESTION 467**

- (Topic 3)

A manager has difficulty motivating staff to improve productivity, despite establishing a lucrative individual reward system. Which of the following is most likely the cause of the difficulty?

- A. High degree of masculinity.
- B. Low uncertainty avoidance.
- C. High collectivism.
- D. Low long-term orientation.

**Answer: C**

**NEW QUESTION 469**

- (Topic 3)

Providing knowledge, motivating organizational members, controlling and coordinating individual efforts, and expressing feelings and emotions are all functions of:

- A. Motivation.
- B. Performance.
- C. Organizational structure.
- D. Communication.

**Answer: D**

**NEW QUESTION 470**

- (Topic 3)

An organization accumulated the following data for the prior fiscal year: Value of

Percentage of  
Quarter  
Output Produced Cost X  
1  
\$4,750,000 2.9

2  
\$4,700,000 3.0  
3  
\$4,350,000 3.2  
4  
\$4,000,000 3.5

Based on this data, which of the following describes the value of Cost X in relation to the value of Output Produced?

- A. Cost X is a variable cost.
- B. Cost X is a fixed cost.
- C. Cost X is a semi-fixed cost.
- D. Cost X and the value of Output Produced are unrelated.

**Answer: B**

#### NEW QUESTION 475

- (Topic 3)

According to IIA guidance, which of the following statements is true regarding analytical procedures?

- A. Data relationships are assumed to exist and to continue where no known conflicting conditions exist.
- B. Analytical procedures are intended primarily to ensure the accuracy of the information being examined.
- C. Data relationships cannot include comparisons between operational and statistical data
- D. Analytical procedures can be used to identify unexpected differences but cannot be used to identify the absence of differences

**Answer: A**

#### NEW QUESTION 476

- (Topic 3)

Which of the following are appropriate functions for an IT steering committee?

- \* 1. Assess the technical adequacy of standards for systems design and programming.
- \* 2. Continually monitor of the adequacy and accuracy of software and hardware in use.
- \* 3. Assess the effects of new technology on the organization's IT operations.
- \* 4. Provide broad oversight of implementation, training, and operation of new systems.

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

**Answer: D**

#### NEW QUESTION 481

- (Topic 3)

Which of the following roles would be least appropriate for the internal audit activity to undertake with regard to an organization's corporate social responsibility (CSR) program?

- A. Consult on project design and implementation of the CSR program.
- B. Serve as an advisor on internal controls related to CSR.
- C. Identify and prioritize the CSR issues that are important to the organization.
- D. Evaluate the effectiveness of the organization's CSR efforts.

**Answer: C**

#### NEW QUESTION 483

- (Topic 3)

When initiating international ventures, an organization should consider cultural dimensions in order to prevent misunderstandings. Which of the following does not represent a recognized cultural dimension in a work environment?

- A. Self control.
- B. Power distance.
- C. Masculinity versus femininity.
- D. Uncertainty avoidance.

**Answer: A**

#### NEW QUESTION 487

- (Topic 3)

According to IIA guidance, which of the following is the correct order to conduct a business impact analysis (BIA) for the potential loss of an organization's network services"

- \* 1. identify resources and partners to provide required recovery services
- \* 2. Identify the business processes supporting the network functionality
- \* 3. Obtain approval of the BIA from the operating managers relative to their areas of responsibility
- \* 4. Identify the business impact if the network services cannot be performed

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

**Answer: B**

**NEW QUESTION 492**

- (Topic 3)

Which of the following conditions could lead an organization to enter into a new business through internal development rather than through acquisition?

- A. It is expected that there will be slow retaliation from incumbents.
- B. The acquiring organization has information that the selling organization is weak.
- C. The number of bidders to acquire the organization for sale is low.
- D. The condition of the economy is poor.

**Answer: A**

**NEW QUESTION 497**

- (Topic 3)

When writing a business memorandum, the writer should choose a writing style that achieves all of the following except:

- A. Draws positive attention to the writing style.
- B. Treats all receivers with respect.
- C. Suits the method of presentation and delivery.
- D. Develops ideas without overstatement.

**Answer: A**

**NEW QUESTION 502**

- (Topic 3)

The first stage in the development of a crisis management program is to:

- A. Formulate contingency plans.
- B. Conduct a risk analysis.
- C. Create a crisis management team.
- D. Practice the response to a crisis.

**Answer: B**

**NEW QUESTION 503**

- (Topic 3)

Which of the following is a limiting factor for capacity expansion?

- A. Government pressure on organizations to increase or maintain employment.
- B. Production orientation of management.
- C. Lack of credible market leader in the industry.
- D. Company diversification.

**Answer: D**

**NEW QUESTION 505**

- (Topic 3)

An organization is projecting sales of 100,000 units, at a unit price of \$12. Unit variable costs are \$7. If fixed costs are \$350,000, what is the projected total contribution margin?

- A. \$350,000
- B. \$500,000
- C. \$850,000
- D. \$1,200,000

**Answer: B**

**NEW QUESTION 510**

- (Topic 3)

An organization had three large centralized divisions: one that received customer orders for service work; one that scheduled the service work at customer locations; and one that answered customer calls about service problems. These three divisions were restructured into seven regional groups, each of which performed all three functions. One advantage of this restructuring would be:

- A. Better internal controls.
- B. Greater economies of scale.
- C. Improved work flow.
- D. Increased specialization.

**Answer: C**

**NEW QUESTION 515**

- (Topic 3)

According to the Standards, which of the following is based on the assertion that the quality of an organization's risk management process should improve with time?

- A. Process element.
- B. Key principles.
- C. Maturity model.
- D. Assurance.

**Answer: C**

**NEW QUESTION 520**

- (Topic 3)

Which of the following examples demonstrates that the internal audit activity uses descriptive analytics in its engagements?

- A. An internal auditor analyzed electricity production and sales interim reports and compiled a risk assessment.
- B. An internal auditor extracted sales data to a spreadsheet and applied judgmental analysis for sampling.
- C. An internal auditor classified solar panel sales by region and discovered unsuccessful sales representatives.
- D. An internal auditor broke down a complex process into smaller pieces to make it more understandable.

**Answer: A**

**NEW QUESTION 523**

- (Topic 3)

Which of the following is a typical example of structured data?

- A. Production information maintained in relational tables.
- B. Tweets and posts of users on social media.
- C. Photos and videos stored in hard drive catalogs.
- D. Sales reports documented in word processing software.

**Answer: A**

**NEW QUESTION 526**

- (Topic 3)

Which of the following describes the most appropriate set of tests for auditing a workstation's logical access controls?

- A. Review the list of people with access badges to the room containing the workstation and a log of those who accessed the room.
- B. Review the password length, frequency of change, and list of users for the workstation's login process.
- C. Review the list of people who attempted to access the workstation and failed, as well as error messages.
- D. Review the passwords of those who attempted unsuccessfully to access the workstation and the log of their activity.

**Answer: A**

**NEW QUESTION 531**

- (Topic 3)

An organization engages in questionable financial reporting practices due to pressure to meet unrealistic performance targets. Which internal control component is most negatively affected?

- A. Monitoring.
- B. Control activities.
- C. Risk assessment.
- D. Control environment.

**Answer: D**

**NEW QUESTION 532**

- (Topic 3)

The following transactions and events occurred during the year:

	January 1	December 31
Finished goods	\$90,000	\$260,000
Raw materials	\$105,000	\$130,000
Work in process	\$220,000	\$175,000

- \$300,000 of raw materials were purchased, of which \$20,000 were returned because of defects
- \$600,000 of direct labor costs were incurred.
- \$750,000 of manufacturing overhead costs were incurred. What is the organization's cost of goods sold for the year?

- A. \$1,480,000
- B. \$1,500,000
- C. \$1,610,000
- D. \$1,650,000

Answer: B

**NEW QUESTION 534**

- (Topic 3)

An internal auditor was asked to review an equal equity partnership. In one sampled transaction, Partner A transferred equipment into the partnership with a self-declared value of \$10,000, and Partner B contributed equipment with a self-declared value of \$15,000. The capital accounts of each partner were subsequently credited with \$12,500. Which of the following statements is true regarding this transaction?

- A. The capital accounts of the partners should be increased by the original cost of the contributed equipment.
- B. The capital accounts should be increased using a weighted average based on the current percentage of ownership.
- C. No action is needed as the capital account of each partner was increased by the correct amount.
- D. The capital accounts of the partners should be increased by the fair market value of their contribution.

Answer: C

**NEW QUESTION 537**

- (Topic 3)

Which of the following are the most appropriate measures for evaluating the change in an organization's liquidity position?

- A. Times interest earned, return on assets, and inventory turnover.
- B. Accounts receivable turnover, inventory turnover in days, and the current ratio.
- C. Accounts receivable turnover, return on assets, and the current ratio.
- D. Inventory turnover in days, the current ratio, and return on equity.

Answer: B

**NEW QUESTION 539**

- (Topic 3)

Which of the following statements is true regarding the relationship between an individual's average tax rate and marginal tax rate?

- A. In a regressive personal tax system, an individual's marginal tax rate is normally greater than his average tax rate.
- B. In a regressive personal tax system, an individual's marginal tax rate is normally equal to his average tax rate.
- C. In a progressive personal tax system, an individual's marginal tax rate is normally equal to his average tax rate.
- D. In a progressive personal tax system, an individual's marginal tax rate is normally greater than his average tax rate.

Answer: D

**NEW QUESTION 540**

- (Topic 3)

A brand manager in a consumer food products organization suspected that several days of the point-of-sale data on the spreadsheet from one grocery chain were missing. The best approach for detecting missing rows in spreadsheet data would be to:

- A. Sort on product identification code and identify missing product identification codes.
- B. Review store identification code and identify missing product identification codes.
- C. Compare product identification codes for consecutive periods.
- D. Compare product identification codes by store for consecutive periods.

Answer: D

**NEW QUESTION 542**

- (Topic 3)

Which of the following statements is true regarding the capital budgeting procedure known as discounted payback period?

- A. It calculates the overall value of a project.
- B. It ignores the time value of money.
- C. It calculates the time a project takes to break even.
- D. It begins at time zero for the project.

Answer: C

**NEW QUESTION 547**

- (Topic 3)

The decision to implement enhanced failure detection and back-up systems to improve data integrity is an example of which risk response?

- A. Risk acceptance.
- B. Risk sharing.
- C. Risk avoidance.
- D. Risk reduction.

Answer: D

**NEW QUESTION 552**

- (Topic 3)

Which of the following are the most common characteristics of big data?

- A. Visibility, validity, vulnerability
- B. Velocity, variety volume.
- C. Complexity completeness constancy
- D. Continuity, control convenience

**Answer:** B

#### NEW QUESTION 557

- (Topic 3)

According to the International Professional Practices Framework, internal auditors who are assessing the adequacy of organizational risk management processes should not:

- A. Recognize that organizations use different techniques for managing risk.
- B. Seek assurance that the key objectives of the risk management processes are being met.
- C. Determine and accept the level of risk for the organization.
- D. Treat the evaluation of risk management processes differently from the risk analysis used to plan audit engagements.

**Answer:** C

#### NEW QUESTION 560

- (Topic 3)

Which of the following best describes a market signal?

- A. The bargaining power of buyers is forcing a drop in market prices.
- B. There is pressure from the competitor's substitute products.
- C. Strategic analysis by the organization indicates feasibility of expanding to new market niches.
- D. The competitor announces a new warranty program.

**Answer:** D

#### NEW QUESTION 562

- (Topic 3)

Which of the following is false with regard to Internet connection firewalls?

- A. Firewalls can protect against computer viruses.
- B. Firewalls monitor attacks from the Internet.
- C. Firewalls provide network administrators tools to retaliate against hackers.
- D. Firewalls may be software-based or hardware-based.

**Answer:** A

#### NEW QUESTION 567

- (Topic 3)

According to IIA guidance, which of the following corporate social responsibility (CSR) activities is appropriate for the internal audit activity to perform?

- A. Determine the optimal amount of resources for the organization to invest in CSR.
- B. Align CSR program objectives with the organization's strategic plan.
- C. Integrate CSR activities into the organization's decision-making process.
- D. Determine whether the organization has an appropriate policy governing its CSR activities.

**Answer:** D

#### NEW QUESTION 572

- (Topic 3)

All of the following are true with regard to the first-in, first-out inventory valuation method except:

- A. It values inventory close to current replacement cost.
- B. It generates the highest profit when prices are rising.
- C. It approximates the physical flow of goods.
- D. It minimizes current-period income taxes.

**Answer:** D

#### NEW QUESTION 573

- (Topic 3)

During an audit of the organization's annual financial statements, the internal auditor notes that the current cost of goods sold percentage is substantially higher than in prior years. Which of the following is the most likely explanation for this increase?

- A. Cost of raw material inventory items is decreasing.
- B. Process to manufacture goods is more efficient.
- C. Labor productivity to produce goods is increasing.
- D. Write-off of inventory is increasing.

**Answer:** A

#### NEW QUESTION 574

- (Topic 3)

Which of the following are appropriate reasons for internal auditors to document processes as part of an audit engagement?

- \* 1. To determine areas of primary concern.
- \* 2. To establish a standard format for process mapping.
- \* 3. To define areas of responsibility within the organization.
- \* 4. To assess the performance of employees.

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

**Answer: B**

#### NEW QUESTION 576

- (Topic 3)

Which of the following network types should an organization choose if it wants to allow access only to its own personnel?

- A. An extranet
- B. A local area network.
- C. An intranet
- D. The internet

**Answer: B**

#### NEW QUESTION 580

- (Topic 3)

An organization has instituted a bring-your-own-device (BYOD) work environment Which of the following policies best addresses the increased risk to the organization's network incurred by this environment?

- A. Limit the use of the employee devices for personal use to mitigate the risk of exposure to organizational data.
- B. Ensure that relevant access to key applications is strictly controlled through an approval and review process
- C. Institute detection and authentication controls for all devices used for network connectivity and data storage
- D. Use management software to scan and then prompt patch reminders when devices connect to the network

**Answer: D**

#### NEW QUESTION 583

- (Topic 3)

Which of the following best describes an objective for an audit of an environmental management system?

- A. To assess whether an annual control review is necessary.
- B. To determine conformance with requirements and agreements.
- C. To evaluate executive management oversight.
- D. To promote environmental awareness.

**Answer: B**

#### NEW QUESTION 584

- (Topic 3)

Which of the following is a product-oriented definition of a business rather than a market- oriented definition of a business?

- A. We are a people-and-goods mover.
- B. We supply energy.
- C. We make movies.
- D. We provide climate control in the home.

**Answer: C**

#### NEW QUESTION 587

- (Topic 3)

Which of the following application controls checks the integrity of data entered into a business application?

- A. Input controls.
- B. Output controls
- C. Processing controls
- D. Integrity controls

**Answer: A**

#### NEW QUESTION 588

- (Topic 3)

The economic order quantity can be calculated using the following formula:

$$Q = \sqrt{\frac{2Dp}{s}}$$

$Q$  = Order size in units

$D$  = Annual demand in units

$p$  = Cost per purchase order

$s$  = Carrying cost per year for one unit of inventory

Which of the following describes how the optimal order size will change if the annual demand increases by 36 percent?

- A. Decrease by about 17 percent.
- B. Decrease by about 7 percent.
- C. Increase by about 7 percent.
- D. Increase by about 17 percent.

**Answer: D**

#### NEW QUESTION 593

- (Topic 3)

Within an enterprise, IT governance relates to the:

- \* 1. Alignment between the enterprise's IT long term plan and the organization's objectives.
- \* 2. Organizational structures of the company that are designed to ensure that IT supports the organization's strategies and objectives.
- \* 3. Operational plans established to support the IT strategies and objectives.
- \* 4. Role of the company's leadership in ensuring IT supports the organization's strategies and objectives.

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

**Answer: C**

#### NEW QUESTION 594

- (Topic 3)

Which of the following would best prevent unauthorized external changes to an organization's data?

- A. Antivirus software, firewall, data encryption.
- B. Firewall, data encryption, backup procedures.
- C. Antivirus software, firewall, backup procedures.
- D. Antivirus software, data encryption, change logs.

**Answer: A**

#### NEW QUESTION 596

- (Topic 3)

Which of the following is based on the concept that there is not one best leadership style and that successful leadership depends on a match between the leader, the situation, and the subordinate?

- A. Attribute theory.
- B. Path goal model
- C. Life cycle model
- D. Contingency theory

**Answer: D**

**NEW QUESTION 597**

- (Topic 3)

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

- A. An effective internal audit function is one of the four cornerstones of good governance.
- B. Those performing governance activities are accountable to the customer.
- C. Accountability is one of the key elements of organizational governance.
- D. Governance principles and the need for an internal audit function are applicable to governmental and not-for-profit activities.

**Answer: B**

**NEW QUESTION 599**

- (Topic 3)

Which of the following cybersecurity-related activities is most likely to be performed by the second line of defense?

- A. Deploy intrusion detection systems and conduct penetration testing
- B. Administer security procedures, training, and testing.
- C. Monitor incidents, key risk indicators, and remediation
- D. implement vulnerability management with internal and external scans.

**Answer: D**

**NEW QUESTION 603**

- (Topic 3)

Which of the following must be adjusted to index a progressive tax system to inflation?

- A. Tax deductions, exemptions, and tax filings.
- B. Tax deductions, exemptions, and tax brackets.
- C. Tax brackets, tax deductions, and tax payments.
- D. Tax brackets, exemptions, and nominal tax receipts.

**Answer: B**

**NEW QUESTION 604**

- (Topic 3)

The greatest advantage of functional departmentalization is that it:

- A. Facilitates communication between primary functions.
- B. Helps to focus on the achievement of organizational goals.
- C. Provides for efficient use of specialized knowledge .
- D. Accommodates geographically dispersed companies

**Answer: C**

**NEW QUESTION 609**

- (Topic 3)

Which of the following costs would be incurred in an inventory stockout?

- A. Lost sales, lost customers, and backorder.
- B. Lost sales, safety stock, and backorder.
- C. Lost customers, safety stock, and backorder.
- D. Lost sales, lost customers, and safety stock.

**Answer: A**

**NEW QUESTION 614**

- (Topic 3)

Which of the following is an example of a physical control?

- A. Providing fire detection and suppression equipment
- B. Establishing a physical security policy and promoting it throughout the organization
- C. Performing business continuity and disaster recovery planning
- D. Keeping an offsite backup of the organization's critical data

**Answer: A**

**NEW QUESTION 619**

- (Topic 3)

Which of the following is a type of network in which an organization permits specific users (such as existing customers) to have access to its internal network through the Internet by building a virtual private network?

- A. Intranet.
- B. Extranet.
- C. Digital subscriber line.
- D. Broadband.

**Answer:**

B

**NEW QUESTION 620**

- (Topic 3)

Which of the following control features consists of a set of authorization codes that distinguishes among actions such as reading, adding, and deleting records?

- A. Internally encrypted passwords
- B. System access privileges.
- C. Logon passwords
- D. Protocol controls.

**Answer: B**

**NEW QUESTION 623**

- (Topic 3)

Which of the following conflict resolution methods should be applied when the intention of the parties is to solve the problem by clarifying differences and attaining everyone's objectives?

- A. Accommodating.
- B. Compromising.
- C. Collaborating.
- D. Competing.

**Answer: C**

**NEW QUESTION 625**

- (Topic 3)

Division A produces a product with a variable cost of \$5 per unit and an allocated fixed cost of \$3 per unit. The market price of the product is \$15 plus 20 percent selling cost. Division B currently purchases this product from an external supplier but is going to purchase it from division A for \$18. Which of the following methods of transfer pricing is being used?

- A. Market price.
- B. Negotiation-based.
- C. Full absorption cost
- D. Variable cost

**Answer: A**

**NEW QUESTION 630**

- (Topic 3)

Which of the following best demonstrates an organization's ability to recover from a disaster?

- A. Hot site
- B. Cold site
- C. Redundant data center
- D. Regular testing of the disaster plan

**Answer: D**

**NEW QUESTION 633**

- (Topic 3)

Which of the following most accurately describes the purpose of application authentication controls?

- A. To ensure that data input into business applications is valid, complete, and accurate.
- B. To prevent or detect errors in data processed using business applications.
- C. To ensure that business applications are protected from unauthorized logical access.
- D. To ensure the validity, accuracy, and completeness of outputs from business applications.

**Answer: C**

**NEW QUESTION 634**

- (Topic 3)

The most important reason to use risk assessment in audit planning is to:

- A. Identify redundant controls.
- B. Improve budgeting accuracy.
- C. Enhance assurance provided to management.
- D. Assist in developing audit programs.

**Answer: C**

**NEW QUESTION 636**

- (Topic 3)

As it relates to the data analytics process, which of the following best describes the purpose of an internal auditor who cleaned and normalized data?

- A. The auditor eliminated duplicate information.

- B. The auditor organized data to minimize useless information.
- C. The auditor made data usable for a specific purpose by ensuring that anomalies were identified and corrected.
- D. The auditor ensured data fields were consistent and that data could be used for a specific purpose.

**Answer: C**

**NEW QUESTION 641**

- (Topic 3)

An organization with global headquarters in the United States has subsidiaries in eight other nations. If the organization operates with an ethnocentric attitude, which of the following statements is true?

- A. Standards used for evaluation and control are determined at local subsidiaries, not set by headquarters.
- B. Orders, commands and advice are sent to the subsidiaries from headquarters.
- C. People of local nationality are developed for the best positions within their own country
- D. There is a significant amount of collaboration between headquarters and subsidiaries.

**Answer: B**

**NEW QUESTION 644**

- (Topic 3)

In which type of business environment are price cutting strategies and franchising strategies most appropriate?

- A. Embryonic, focused.
- B. Fragmented, decline.
- C. Mature, fragmented.
- D. Competitive, embryonic.

**Answer: C**

**NEW QUESTION 646**

- (Topic 3)

According to IIA guidance, which of the following steps are most important for an internal auditor to perform when evaluating an organization's social and environmental impact on the local community?

- ? Determine whether previous incidents have been reported, managed, and resolved.
- ? Determine whether a business contingency plan exists.
- ? Determine the extent of transparency in reporting.
- ? Determine whether a cost/benefit analysis was performed for all related projects.

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

**Answer: A**

**NEW QUESTION 648**

- (Topic 3)

An internal auditor performed a review of IT outsourcing and found that the service provider was failing to meet the terms of the service level agreement. Which of the following approaches is most appropriate to address this concern?

- A. The organization should review the skill requirements and ensure that the service provider is maintaining sufficient expertise and retaining skilled resources.
- B. The organization should proactively monitor the performance of the service provider, escalate concerns, and use penalty clauses in the contract where necessary.
- C. The organization should ensure that there is a clear management communication strategy and path for evaluating and reporting on all outsourced services concerns.
- D. The organization should work with the service provider to review the current agreement and expectations relating to objectives, processes, and overall performance.

**Answer: B**

**NEW QUESTION 649**

- (Topic 3)

A key advantage of developing a computer application by using the prototyping approach is that it:

- A. Does not require testing for user acceptance.
- B. Allows applications to be portable across multiple system platforms.
- C. Is less expensive since it is self-documenting.
- D. Better involves users in the design process.

**Answer: D**

**NEW QUESTION 652**

- (Topic 3)

Which of the following statements is in accordance with COBIT?

- \* 1. Pervasive controls are general while detailed controls are specific.
- \* 2. Application controls are a subset of pervasive controls.
- \* 3. Implementation of software is a type of pervasive control.

\* 4. Disaster recovery planning is a type of detailed control.

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

**Answer:** A

#### NEW QUESTION 654

- (Topic 3)

A retail organization is considering acquiring a composite textile company. The retailer's due diligence team determined the value of the textile company to be \$50 million. The financial experts forecasted net present value of future cash flows to be \$60 million. Experts at the textile company determined their company's market value to be \$55 million if purchased by another entity. However, the textile company could earn more than \$70 million from the retail organization due to synergies. Therefore, the textile company is motivated to make the negotiation successful. Which of the following approaches is most likely to result in a successful negotiation?

- A. Develop a bargaining zone that lies between \$50 million and \$70 million and create sets of outcomes between \$50 million and \$70 million.
- B. Adopt an added-value negotiating strategy, develop a bargaining zone between \$50 million and \$70 million, and create sets of outcomes between \$50 million and \$70 million.
- C. Involve a mediator as a neutral party who can work with the textile company's management to determine a bargaining zone.
- D. Develop a bargaining zone that lies between \$55 million and \$60 million and create sets of outcomes between \$55 million and \$60 million.

**Answer:** D

#### NEW QUESTION 655

- (Topic 3)

In which of the following scenarios would transfer pricing be used?

- A. Company A owns Company B; Company B sells goods to Company A.
- B. Company A does not own Company B.
- C. Company A charges Company B a fee to sell Company B's goods without taking ownership of the goods.
- D. Company A owns both Company B and Company C; all three companies sell goods to the public.
- E. Company A moves goods internally from one location to another.

**Answer:** A

#### NEW QUESTION 659

- (Topic 3)

Which of the following statements is true regarding the resolution of interpersonal conflict?

- A. Unrealized expectations can be avoided with open and honest discussion.
- B. Reorganization would probably not help ambiguous or overlapping jurisdictions.
- C. Deferring action should be used until there is sufficient time to fully deal with the issue.
- D. Timely and unambiguous clarification of roles and responsibilities will eliminate most interpersonal conflict.

**Answer:** A

#### NEW QUESTION 662

- (Topic 3)

For a multinational organization, which of the following is a disadvantage of an ethnocentric staffing policy?

- \* 1. It significantly raises compensation and staffing costs.
- \* 2. It produces resentment among the organization's employees in host countries.
- \* 3. It limits career mobility for parent-country nationals.
- \* 4. It can lead to cultural myopia.

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

**Answer:** D

#### NEW QUESTION 665

- (Topic 3)

Where complex problems need to be addressed, which of the following communication networks would be most appropriate?

- A. Chain.
- B. All-channel.
- C. Circle.
- D. Wheel.

**Answer:** B

#### NEW QUESTION 667

- (Topic 3)

The critical path for any project is the path that exhibits which of the following characteristics?

- A. Has the longest duration in time.
- B. Costs the most money.
- C. Requires the largest amount of labor
- D. Is deemed most important to the project.

**Answer:** A

#### NEW QUESTION 669

- (Topic 3)

Which of the following methods, if used in conjunction with electronic data interchange (EDI), will improve the organization's cash management program, reduce transaction data input time and errors, and allow the organization to negotiate discounts with EDI vendors based on prompt payment?

- A. Electronic funds transfer.
- B. Knowledge-based systems.
- C. Biometrics.
- D. Standardized graphical user interface.

**Answer:** A

#### NEW QUESTION 670

- (Topic 3)

Which of the following statements accurately describes one of the characteristics that distinguishes a multinational company from a domestic company?

- A. A multinational company has stockholders in other countries.
- B. A multinational company exports its products to other countries.
- C. A multinational company operates outside of its country of origin.
- D. A multinational company uses raw materials and components from more than one country.

**Answer:** C

#### NEW QUESTION 674

- (Topic 3)

In the current year, a merchandising organization had an inventory turnover ratio of 3.0, which was less than the industry average of 6.5. Which of the following offers the most likely explanation for this difference?

- A. The organization has understated the amount of inventory in its financial statements
- B. The organization has overstated the cost of purchases in its financial statements.
- C. The organization is holding obsolete or damaged items in its inventory
- D. The organization experienced an unexpectedly large increase in sales shortly before year end.

**Answer:** C

#### NEW QUESTION 675

- (Topic 3)

According to Porter's model of competitive strategy, which of the following is a generic strategy?

- \* 1. Differentiation.
- \* 2. Competitive advantage.
- \* 3. Focused differentiation.
- \* 4. Cost focus.

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

**Answer:** C

#### NEW QUESTION 680

- (Topic 3)

Which of the following statements about market signaling is correct?

- \* 1. The organization releases information about a new product generation.
- \* 2. The organization limits a challenger's access to the best source of raw materials or labor.
- \* 3. The organization announces that it is fighting a new process technology.
- \* 4. The organization makes exclusive arrangements with the channels.

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

**Answer:** A

#### NEW QUESTION 685

- (Topic 3)

A retail organization mistakenly did not include \$10,000 of inventory in the physical count at the end of the year. What was the impact to the organization's financial statements?

- A. Cost of sales and net income are understated
- B. Cost of sales and net income are overstated
- C. Cost of sales is understated and net income is overstated.
- D. Cost of sales is overstated and net income is understated.

**Answer: C**

**NEW QUESTION 689**

- (Topic 3)

Which of the following is a primary driver behind the creation and prioritization of new strategic initiatives established by an organization?

- A. Risk tolerance
- B. Performance.
- C. Threats and opportunities.
- D. Governance

**Answer: C**

**NEW QUESTION 694**

- (Topic 3)

Which of the following are typical audit considerations for a review of authentication?

- \* 1. Authentication policies and evaluation of controls transactions.
- \* 2. Management of passwords, independent reconciliation, and audit trail.
- \* 3. Control self-assessment tools used by management.
- \* 4. Independent verification of data integrity and accuracy.

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

**Answer: A**

**NEW QUESTION 696**

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