

Practice Exam Questions



The Institute of
Internal Auditors



CIA Exam Part Three Business Knowledge for Internal Auditing



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IIA

Exam IIA-CIA-Part3-3P

CIA Exam Part Three: Business Knowledge for Internal Auditing

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[Total Questions: 488]

Topic break down

Topic	No. of Questions
Topic 1: Exam Pool A	214
Topic 2: Exam Pool B	274

Topic 1, Exam Pool A

Question No : 1 - (Topic 1)

Which of the following is a disadvantage of selecting a commercial software package rather than developing an application internally?

- A. Lack of flexibility.
- B. Incompatibility with client/server technology.
- C. Employee resistance to change.
- D. Inadequate technical support.

Answer: A

Question No : 2 - (Topic 1)

In mergers and acquisitions, which of the following is an example of a horizontal combination?

- A. Dairy manufacturing company taking over a large dairy farm.
- B. A movie producer acquires movie theaters.
- C. A petroleum processing company acquires an agro-processing firm.
- D. A baker taking over a competitor.

Answer: D

Question No : 3 - (Topic 1)

Which of the following would not impair the objectivity of internal auditor?

- A. Management assurance on risks.
- B. Implementing risk responses on behalf of management.
- C. Providing assurance that risks assessed are correctly evaluated.
- D. Setting the risk appetite.

Answer: C

Question No : 4 - (Topic 1)

At what point during the systems development process should an internal auditor verify that the new application's connectivity to the organization's other systems has been established correctly?

- A. Prior to testing the new application.
- B. During testing of the new application.
- C. During implementation of the new application.
- D. During maintenance of the new application.

Answer: A

Question No : 5 - (Topic 1)

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

Question No : 6 - (Topic 1)

Which of the following is the best approach to overcome entry barriers into a new business?

- A. Offer a standard product that is targeted in the recognized market.
- B. Invest in commodity or commodity-like product businesses.
- C. Enter into a slow-growing market.
- D. Use an established distribution relationship.

Answer: D

Question No : 7 - (Topic 1)

Which of the following techniques would be least effective in resolving the conflict created by an internal audit client's perception of the audit report as a personal attack on his management performance?

- A. The auditor should focus on the audit client as a person and understand him, rather than just concentrating on the problem.
- B. The auditor should make recommendations based on objective criteria, rather than based on a subjective assessment.
- C. The auditor should explore alternative solutions to address the audit problem, so the audit client has options.
- D. The auditor should take a flexible position on the recommendations and focus on resolving the issue by addressing the interests of the people concerned.

Answer: A

Question No : 8 - (Topic 1)

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

Question No : 9 - (Topic 1)

Which of the following are likely indicators of ineffective change management?

- 1) IT management is unable to predict how a change will impact interdependent systems or business processes.
 - 2) There have been significant increases in trouble calls or in support hours logged by programmers.
 - 3) There is a lack of turnover in the systems support and business analyst development groups.
 - 4) Emergency changes that bypass the normal control process frequently are deemed necessary.
- A. 1 and 3 only
 - B. 2 and 4 only
 - C. 1, 2, and 4 only

D. 1, 2, 3, and 4

Answer: C

Question No : 10 - (Topic 1)

According to the Standards, the internal audit activity must evaluate risk exposures relating to which of the following when examining an organization's risk management process?

- 1) Organizational governance.
- 2) Organizational operations.
- 3) Organizational information systems.
- 4) Organizational structure.

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

Answer: C

Question No : 11 - (Topic 1)

Which is the least effective form of risk management?

- A. Systems-based preventive control.
- B. People-based preventive control.
- C. Systems-based detective control.
- D. People-based detective control.

Answer: D

Question No : 12 - (Topic 1)

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

Question No : 13 - (Topic 1)

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

Question No : 14 - (Topic 1)

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

Question No : 15 - (Topic 1)

A small furniture-manufacturing firm with 100 employees is located in a two-story building and does not plan to expand. The furniture manufactured is not special-ordered or custom-made. The most likely structure for this organization would be:

- A. Functional departmentalization.
- B. Product departmentalization.
- C. Matrix organization.
- D. Divisional organization.

Answer: A

Question No : 16 - (Topic 1)

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

Question No : 17 - (Topic 1)

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

Question No : 18 - (Topic 1)

Which of the following corporate social responsibility strategies is likely to be most effective in minimizing confrontations with influential activists and lobbyists?

- A. Continually evaluate the needs and opinions of all stakeholder groups.
- B. Ensure strict compliance with applicable laws and regulations to avoid incidents.
- C. Maintain a comprehensive publicity campaign that highlights the organization's efforts.
- D. Increase goodwill through philanthropic activities among stakeholder communities.

Answer: A

Question No : 19 - (Topic 1)

Refer to the exhibit.

If the profit margin of an organization decreases, and all else remains equal, which of the following describes

how the "Funds Needed" line in the graph below will shift?

- A. The "Funds Needed" line will remain pointed upward, but will become less steep.
- B. The "Funds Needed" line will remain pointed upward, but will become more steep.
- C. The "Funds Needed" line will point downward with a minimal slope.
- D. The "Funds Needed" line will point downward with an extreme slope.

Answer: B

Question No : 20 - (Topic 1)

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

Question No : 21 - (Topic 1)

For an engineering department with a total quality management program, important elements of quality management include all of the following except:

- A. Basing performance evaluations on the number of projects completed.
- B. Comparing results with those of other engineering departments.
- C. Creating a quality council within the engineering department.
- D. Conducting post-project surveys on performance.

Answer: A

Question No : 22 - (Topic 1)

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

Question No : 23 - (Topic 1)

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

Question No : 24 - (Topic 1)

The economic order quantity for inventory is higher for an organization that has:

- A. Lower annual unit sales.
- B. Higher fixed inventory ordering costs.
- C. Higher annual carrying costs as a percentage of inventory value.
- D. A higher purchase price per unit of inventory.

Answer: B

Question No : 25 - (Topic 1)

Which of the following phases of a business cycle are marked by an underuse of resources?

- 1) The trough.
- 2) The peak.
- 3) The recovery.
- 4) The recession.

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

Answer: B

Question No : 26 - (Topic 1)

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?

- 1) Determine whether previous incidents have been reported, managed, and resolved.
- 2) Determine whether a business contingency plan exists.
- 3) Determine the extent of transparency in reporting.
- 4) 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

Question No : 27 - (Topic 1)

Which of the following is an example of a risk avoidance response?

- A. Buying an insurance policy to protect against loss events.
- B. Hedging against natural gas price fluctuations.
- C. Selling a non-strategic business unit.
- D. Outsourcing a high risk process to a third party.

Answer: C

Question No : 28 - (Topic 1)

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

Question No : 29 - (Topic 1)

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

Question No : 30 - (Topic 1)

An organization is considering mirroring the customer data for one regional center at another center. A disadvantage of such an arrangement would be:

- A. Lack of awareness of the state of processing.
- B. Increased cost and complexity of network traffic.
- C. Interference of the mirrored data with the original source data.
- D. Confusion about where customer data are stored.

Answer: B

Question No : 31 - (Topic 1)

Which of the following is not a barrier to effective communication?

- A. Filtering.
- B. Communication overload.
- C. Similar frames of reference.
- D. Lack of source credibility.

Answer: C

Question No : 32 - (Topic 1)

An organization is considering the outsourcing of its business processes related to payroll and information technology functions. Which of the following is the most significant area of concern for management regarding this proposed agreement?

- A. Ensuring that payments to the vendor are appropriate and timely for the services delivered.
- B. Ensuring that the vendor has complete management control of the outsourced process.
- C. Ensuring that there are means of monitoring the efficiency of the outsourced process.
- D. Ensuring that there are means of monitoring the effectiveness of the outsourced process.

Answer: D

Question No : 33 - (Topic 1)

Which of the following budgets must be prepared first?

- A. Cash budget.
- B. Production budget.
- C. Sales budget.
- D. Selling and administrative expenses budget.

Answer: C

Question No : 34 - (Topic 1)

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

Question No : 35 - (Topic 1)

The process of scenario planning begins with which of the following steps?

- A.** Determining the trends that will influence key factors in the organization's environment.
- B.** Selecting the issue or decision that will impact how the organization conducts future business.
- C.** Selecting leading indicators to alert the organization of future developments.
- D.** Identifying how customers, suppliers, competitors, employees, and other stakeholders will react.

Answer: B

Question No : 36 - (Topic 1)

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

Question No : 37 - (Topic 1)

The audit committee of a global corporation has mandated a change in the organization's business ethics policy. Which of the following approaches describes the best way to accomplish the policy's diffusion worldwide?

- A. Deploy the policy in the corporate headquarters' language, so everyone gets an unfiltered version simultaneously.
- B. Introduce the policy region by region, using any lessons learned to change the subsequent version of the policy for the next area.
- C. Consult with legal and operational management in each affected country to ensure the final version can be implemented globally, following audit committee approval.
- D. Send the board-approved version of the policy to each country's senior leadership and empower them to tailor the policy to the local language and culture.

Answer: C

Question No : 38 - (Topic 1)

A supervisor receives a complaint from an employee who is frustrated about having to learn a new software

program. The supervisor responds that the new software will enable the employee to work more efficiently and with greater accuracy. This response is an example of:

- A. Empathetic listening.
- B. Reframing.
- C. Reflective listening.
- D. Dialogue.

Answer: B

Question No : 39 - (Topic 1)

Which of the following is not included in the process of user authentication?

- A. Authorization.
- B. Identification.
- C. Verification.
- D. Validation.

Answer: A

Question No : 40 - (Topic 1)

Which of the following is true regarding the COSO enterprise risk management framework?

- A. The framework categorizes an organization's objectives to distinct, non overlapping objectives.
- B. Control environment is one of the framework's eight components.
- C. The framework facilitates effective risk management, even if objectives have not been established.
- D. The framework integrates with, but is not dependent upon, the corresponding internal control framework.

Answer: D

Question No : 41 - (Topic 1)

Which of the following statements about slack time and milestones are true?

- 1) Slack time represents the amount of time a task may be delayed without delaying the entire project.
 - 2) A milestone is a moment in time that marks the completion of the project's major deliverables.
 - 3) Slack time allows the project manager to move resources from one task to another to ensure that the project is finished on time.
 - 4) A milestone requires resource allocation and needs time to be completed.
- A. 1 and 4 only
 - B. 2 and 3 only
 - C. 1, 2, and 3 only
 - D. 1, 2, 3, and 4

Answer: C

Question No : 42 - (Topic 1)

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

Question No : 43 - (Topic 1)

Which of the following statements is true regarding the roles and responsibilities associated with a corporate social responsibility (CSR) program?

- A. The board has overall responsibility for the internal control processes associated with the CSR program.
- B. Management has overall responsibility for the effectiveness of governance, risk management, and internal control processes associated with the CSR program.
- C. The internal audit activity is responsible for ensuring that CSR principles are integrated into the organization's policies and procedures.
- D. Every employee has a responsibility for ensuring the success of the organization's CSR objectives.

Answer: D

Question No : 44 - (Topic 1)

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

Question No : 45 - (Topic 1)

Which of the following is the best reason for considering the acquisition of a nondomestic organization?

- A. Relatively fast market entry.
- B. Improved cash flow of the acquiring organization.
- C. Increased diversity of corporate culture.
- D. Opportunity to influence local government policy.

Answer: A

Question No : 46 - (Topic 1)

Which of the following strategies is most appropriate for an industry that is in decline?

- A. Invest in marketing.
- B. Invest in research and development.
- C. Control costs.
- D. Shift toward mass production.

Answer: C

Question No : 47 - (Topic 1)