PART-1(UNIT-1)

1.Which of the following concurrent occupations could appear to subvert the ethical behavior of an internal auditor?

A.Internal auditor and adjunct faculty member of a local business college that educates potential employees.

B.Internal auditor and a well-known charitable organization's local in-house chairperson.

C.Internal auditor and part-time business insurance broker.

D.Internal auditor and landlord of multiple housing that publicly advertises for tenants in a local community newspaper listing monthly rental fees.

Answer (C) is correct

Rule of Conduct 2.1 under the objectivity principle states, "Internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization." As a business insurance broker, the internal auditor may lose his or her objectivity because (s)he might benefit from a change in the employer's insurance coverage.

A.Teaching is compatible with internal auditing.

B.The activities of a charity are unlikely to be contrary to the interests of the organization.

D.Whereas dealing in commercial properties might involve a conflict, renting residential units most likely does not.

2.A review of an organization's code of conduct revealed that it contained comprehensive guidelines designed to inspire high levels of ethical behavior. The review also revealed that employees were knowledgeable of its provisions. However, some employees still did not comply with the code. What element should a code of conduct contain to enhance its effectiveness?

A.Periodic review and acknowledgment by all employees.

B.Employee involvement in its development.

C.Provisions for disciplinary action in the event of violations.

D.Public knowledge of its contents and purpose.

Answer (C) is correct.

Penalties for violations of a code of conduct should enhance its effectiveness. Some individuals will be deterred from misconduct if they expect it to be detected and punished.

A.Periodic review and acknowledgment would ensure employee knowledge and acceptance of the code, which are not at issue.

B.Employee involvement in development would encourage employee acceptance, which is not at issue.

D.Public knowledge might affect the behavior of some individuals, but not to the same extent as the perceived likelihood of sanctions for wrongdoing.

3.According to The IIA's Code of Ethics, which of the following principles is relevant to the establishment of trust?

A.Confidentiality.

B.Competency.

C.Integrity.

D.Objectivity.

Answer (C) is correct.

The principle of integrity states that the integrity of the internal auditors establishes trust and thus provides the basis for reliance on their judgment. The four Core Principles included in The IIA's Code of Ethics are integrity, objectivity, confidentiality, and competency.

A.The principle of confidentiality states that internal auditors do not disclose information without appropriate authority. It does not include the establishment of trust.

B.The principle of competency states that internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services. It does not include the establishment of trust

D.The principle of objectivity states that internal auditors are not unduly influenced by their own interests or by others in forming judgments. It does not include the establishment of trust.

4.In their communication of results, internal auditors are required by The IIA's Code of Ethics to

A.Obtain factual information within the established time and budget parameters.

B.Disclose all material information obtained as of the date of the final engagement communication.

C.Reveal material facts that could distort communications if not revealed.

D.Present sufficient factual information without revealing confidential information that could be detrimental to the organization.

Answer (C) is correct.

Internal auditors should disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review (Rule of Conduct 2.3).

A.Obtaining information pertains to performing the engagement, not communicating results.

B.Disclosures by the internal auditors are not limited to information obtained as of the date of the final engagement communication.

D.The Code of Ethics does not prohibit communicating confidential information to appropriate parties within the organization, e.g., senior management and the board

5.An internal auditor has uncovered facts that could be interpreted as indicating unlawful activity on the part of an engagement client. The internal auditor decides not to inform senior management and the board of these facts because of lack of proof. The internal auditor, however, decides that, if questions are raised regarding the omitted facts, they will be answered fully and truthfully. In taking this action, the internal auditor

A.Has violated The IIA's Code of Ethics because unlawful acts should have been reported to the appropriate regulatory agency to avoid potential "aiding and abetting" by the internal auditor.

B.Has not violated The IIA's Code of Ethics or the Standards because the internal auditor is committed to answering all questions fully and truthfully.

C.Has violated the Standards because the internal auditor should inform the appropriate authorities in the organization if fraud may be indicated.

D.Has not violated The IIA's Code of Ethics or the Standards because confidentiality takes precedence over all other standards.

Answer (C) is correct.

The internal auditor should inform the appropriate authorities in the organization if the indicators of the commission of a fraud are sufficient to recommend an investigation. Thus, the internal auditor has a duty to act even though the available facts do not prove that an irregularity has occurred. Moreover, Rule of Conduct 2.3 states, "Internal auditors shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review."

A.The possibility of unlawful activities should be reported to the appropriate personnel within the organization.

B.The internal auditor has an affirmative duty to report the results of his or her work.

D.Reporting a possible irregularity to the appropriate organizational authorities is not a breach of the duty of confidentiality owed to the organization.

6.Which Standards expand upon the other categories of Standards?

A.Attribute Standards.

B.Implementation Standards.

C.Performance Standards.

D.All of the choices are correct.

Answer (B) is correct.

Implementation Standards expand upon the Attribute and Performance Standards. They provide requirements applicable to assurance or consulting engagements.

A.Attribute Standards apply to all internal audit services

C.Performance Standards apply to all internal audit services.

D.Only Implementation Standards expand upon the standards in other categories.

7.The types of services provided by the internal audit activity can best be described as

A.Auditing and consulting.

B.Auditing and assurance.

C.Assurance and consulting.

D.Auditing and engagement.

Answer (C) is correct.

The internal audit activity provides independent, objective assurance and consulting services designed to add value and improve an organization's operations (Definition of Internal Auditing).

A.The IIA Glossary defines assurance and consulting, not auditing and consulting, as the types of services provided by the internal audit activity.

B.The IIA Glossary defines assurance and consulting, not auditing and assurance, as the types of services provided by the internal audit activity.

D.Engagement is not a type of internal audit service.

8.Which of the following is permissible under The IIA's Code of Ethics?

A.An auditor used audit-related information in a decision to buy stock issued by the employer corporation.

B.In response to a subpoena, an auditor appeared in a court of law and disclosed confidential, audit-related information that could potentially damage the auditor's organization.

C.An auditor did not report significant observations about illegal activity to the board because management indicated that it would resolve the issue.