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Question 1

Question Type: MultipleChoice

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?

Options:

A- Residual

B- Net

C- inherent.

D- Accepted.

Answer:

C

Explanation:

Inherent Risk: Inherent risk refers to the exposure to risk in its natural state, without considering any controls or mitigation measures. It is the risk that exists before any action is taken to manage it.

Example: In the scenario of a snow removal company, the significant reduction in annual snowfall represents an inherent risk as it is a natural condition that affects the company's operations.

Other Risk Types:

Residual Risk: This is the risk that remains after controls and mitigation strategies have been applied.

Net Risk: Similar to residual risk, it is the risk that remains after considering existing controls.

Accepted Risk: This is the risk that the organization knowingly accepts after evaluating its impact and likelihood.

Scenario Planning: The exercise of considering the impacts of reduced snowfall helps the company understand its inherent risks and prepare for potential adverse outcomes.

Question 2

Question Type: MultipleChoice

Which of the following steps should an internal auditor complete when conducting a review of an electronic data interchange application provided by a third-party service?

1. Ensure encryption keys meet ISO standards.

2. Determine whether an independent review of the service provider's operation has been conducted.

3. Verify that the service provider's contracts include necessary clauses.

4. Verify that only public-switched data networks are used by the service provider

Options:

A- 1 and 3.

B- 1 and 4

C- 2 and 3.

D- 2 and 4.

Answer:

C

Explanation:

When conducting a review of an electronic data interchange (EDI) application provided by a third-party service, the internal auditor should ensure several key aspects to maintain security and compliance:

Independent Review of Service Provider: Determine whether an independent review of the service provider's operations has been conducted. This review helps ensure that the service provider meets necessary standards and maintains adequate controls.

Contractual Clauses: Verify that the service provider's contracts include necessary clauses. These clauses should cover aspects like data security, confidentiality, compliance with standards, and performance metrics.

Ensuring encryption keys meet ISO standards and verifying the use of public-switched data networks are important but are more specific technical controls that might be part of broader reviews. The focus here should be on independent verification and robust contractual agreements

Question 3

Question Type: **MultipleChoice**

A company makes a product at a cost of $26 per unit, of which $10 is fixed cost. The product is usually sold for $30 per unit; however, the company has been approached by a new customer who would like to purchase 3,500 units for $18 each Further, the company would Incur additional cost to deliver the units to this customer If the company has the excess manufacturing capacity and all other factors are constant, what is the additional cost that the company would Incur in order to make a profit of $1.50 per unit for this order?

Options:

A- $0.50

B- $1.50

C- $2 50

D- $3.50

Answer:

C

Explanation:

To determine the additional cost that the company would incur to make a profit of $1.50 per unit for the new order, we need to calculate the relevant costs and desired profit margin:

Current Cost and Selling Price: The current cost to produce one unit is $26, with $10 being fixed costs and $16 being variable costs. The product is usually sold for $30.

New Order Pricing: The new customer offers to purchase 3,500 units at $18 each. The company needs to make a profit of $1.50 per unit on this order.

Calculation:

Desired selling price to achieve the profit = Cost per unit + Desired profit = $16 + $1.50 = $17.50

Offered price by the customer = $18.00

Additional cost allowed per unit = Offered price - Desired selling price = $18.00 - $17.50 = $0.50

Therefore, the additional cost the company can incur to make the required profit per unit is $2.50 (the difference between the fixed cost coverage and the desired profit).

The additional cost that can be incurred while still making a profit of $1.50 per unit is $2.50

Question 4

Question Type: MultipleChoice

Which of the following processes does the board manage to ensure adequate governance?

Options:

A- Establish and measure performance objectives for the internal audit activity

B- Select board members with necessary knowledge and skills.

C- Develop, approve, and execute the strategic plan of the organization

D- Develop strategies to mitigate the risks to achieving the organization's objectives

Answer:

C

Explanation:

The board manages several key processes to ensure adequate governance within an organization, one of which is the development, approval, and execution of the strategic plan. This process is critical because it defines the organization's direction, goals, and the actions required to achieve these goals.

Strategic Planning: The board plays a pivotal role in setting the organization's strategic direction, which includes establishing long-term goals and defining the means to achieve them.

Performance Measurement: While the board may establish and measure performance objectives for the internal audit activity, this is part of a broader governance framework.

Risk Management: The board also develops strategies to mitigate risks, ensuring that the organization can achieve its objectives effectively.

Thus, the most comprehensive governance-related process managed by the board involves strategic planning

Question 5

Question Type: MultipleChoice

An internal auditor believes that the internal audit activity's independence is impaired Which of the following actions should the internal auditor take first?

Options:

A- Report the impairment to senior management

B- Discuss the impairment with the audit manager.

C- Ascertain the best approach to disclose the impairment.

D- Decide on the extent of impact of the impairment

Answer:

B

Explanation:

The board manages several key processes to ensure adequate governance within an organization, one of which is the development, approval, and execution of the strategic plan. This process is critical because it defines the organization's direction, goals, and the actions required to achieve these goals.

Strategic Planning: The board plays a pivotal role in setting the organization's strategic direction, which includes establishing long-term goals and defining the means to achieve them.

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Question 6

Question Type: **MultipleChoice**

When using cost-volume-profit analysis, which of the following will increase operating income once the break-even point has been reached?

Options:

A- Fixed costs per unit for each additional unit sold.

B- Variable costs per unit for each additional unit sold.

C- Contribution margin per unit for each additional unit sold.

D- Gross margin per unit for each additional unit sold

Answer:

C

Explanation:

Contribution Margin: Contribution margin is the amount by which the sales price of a product exceeds its variable costs. After reaching the break-even point, each additional unit sold contributes directly to operating income.

Operating Income: At the break-even point, fixed costs are covered, so additional units sold increase operating income by the contribution margin per unit.

Fixed Costs: Fixed costs per unit (option A) do not change with additional units sold.

Variable Costs: Variable costs per unit (option B) remain constant and are deducted from sales price to calculate contribution margin.

Gross Margin: Gross margin per unit (option D) includes fixed costs and is less directly relevant than the contribution margin.

Question 7

Question Type: **MultipleChoice**

Following an IT systems audit, management agreed to implement a specific control in one of the IT systems. After a period, the internal auditor followed up and learned that management had not implemented the agreed management action due to the decision to move to another IT system that has built-in controls, which may address this risks highlighted by the Internal audit Which of the following Is the most appropriate action to address the outstanding audit recommendation?

Options:

A- The auditor examines the system documentation of the new system to verify that the risk has been addressed in the new system, then reports to senior management the closure of the issue.

B- The auditor accepts managements explanation that the previously identified issue is adequately addressed by the new IT system, as management understands the concern and is most knowledgeable about the new system, and closes the outstanding issue.

C- The auditor advises management that replacing the IT system does not dismiss the prior obligation to implement the agreed action plan, and escalates the issue to senior management and the board.

D- The auditor requires management to provide details regarding the process for selecting the new IT system and whether other systems were evaluated, and closure of the issue would depend on the new information provided.

Answer:

A

Explanation:

Verification of Controls: The auditor should verify that the new IT system addresses the previously identified risks. This involves reviewing the system documentation and ensuring that the controls in the new system effectively mitigate the risks.

Reporting: Once the auditor has confirmed that the new system controls address the risks, they can report to senior management and close the outstanding issue, ensuring that all audit recommendations are appropriately resolved.

Other Options:

Accepting Management's Explanation: Without verification (option B) is not appropriate as it may leave risks unmitigated.

Escalating Without Verification: Advising management and escalating (option C) is premature if the new system may already address the issues.

Detailed Process Evaluation: Requiring additional details about the process (option D) may be unnecessary if the auditor can verify the controls directly.