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Exam : **IIA-CIA-Part3-3P**

Title : CIA Exam Part Three: Business Knowledge for Internal Auditing

Vendor : IIA

Version : DEMO

NO.1 An internal auditor is trying to assess control risk and the effectiveness of an organization's internal controls. Which of the following audit procedures would not provide assurance to the auditor on this matter?

- A. Observing the organization's operations.
- B. Inspecting manuals and documents.
- C. Interviewing the organization's employees.
- D. Reading the board's minutes.

Answer: D

NO.2 Which of the following application software features is the least effective control to protect passwords?

- A. Suspension of user IDs after a user's repeated attempts to sign on with an invalid password.
- B. Encryption of passwords prior to their transmission or storage.
- C. Automatic logoff of inactive users after a specified time period of inactivity.
- D. Forced change of passwords after a designated number of days.

Answer: D

NO.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. Knowledge-based systems.
- B. Standardized graphical user interface.
- C. Biometrics.
- D. Electronic funds transfer.

Answer: D

NO.4 Which of the following is a likely result of outsourcing?

- A. Decreased sensitivity to government regulation.
- B. Decreased focus on costs.
- C. Increased dependence on suppliers.
- D. Increased importance of market strategy.

Answer: B

NO.5 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 is understated and net income is overstated.
- B. Cost of sales and net income are overstated
- C. Cost of sales and net income are understated
- D. Cost of sales is overstated and net income is understated.

Answer: A

NO.6 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. 2 and 3 only

B. 1 and 3 only

C. 1 and 4 only

D. 2 and 4 only

Answer: C

NO.7 An organization's balance sheet indicates that the total asset amount and the total capital stock amount remained unchanged from one year to the next, and no dividends were declared or paid. However, the organization reported a loss of \$200,000. Which of the following describes the most likely year-over-year change to the organization's total liabilities and total stockholder equity?

A. The total liabilities decreased, and the total stockholder equity increased.

B. The total liabilities and total stockholder equity both increased.

C. The total liabilities and total stockholder equity both decreased.

D. The total liabilities increased, and the total stockholder equity decreased.

Answer: D

NO.8 Which of the following is classified as a product cost using the variable costing method?

1) Direct labor costs

2) Insurance on a factory.

3) Manufacturing supplies.

4) Packaging and shipping costs

A. 1 and 3

B. 3 and 4

C. 1 and 2

D. 2 and 4

Answer: A

NO.9 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

NO.10 Which of the following actions is most likely to gain support for process change?

A. Establish key competencies.

B. Set clear objectives.

C. Engage the various communities of practice within the organization.

D. Demonstrate support from senior management.

Answer: C

NO.11 Which of the following costs would be incurred in an inventory stockout?

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

Answer: A

NO.12 Which of the following is a key component of an organization's cybersecurity governance?

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

Answer: A

NO.13 Data encryption is an example of which of the following controls?

- A. IT general control
- B. Data output control
- C. Application control.
- D. Data input control

Answer: B

NO.14 At a manufacturing plant, how would using Internet of Things during the production process benefit the organization?

- A. It would help detect cyberattacks in a more timely fashion.
- B. It would provide the ability to monitor in real-time.
- C. It would assist in ensuring that data integrity is maintained.
- D. It would assist in securing sensitive data.

Answer: B

NO.15 Which of the following IT professionals is responsible for providing maintenance to switches and routers to keep IT systems running as intended?

- A. Database administrator.
- B. Data center operations manager.
- C. Network administrator.
- D. Response and support team.

Answer: C

NO.16 Which of the following control techniques would minimize the risk of interception during transmission in an electronic data interchange system?

- 1) Encryption.

- 2) Traffic padding.
- 3) Edit checks.
- 4) Structured data format.

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

Answer: D

NO.17 A manager at a publishing company received an email that appeared to be from one of her vendors with an attachment that contained malware embedded in an Excel spreadsheet. When the spreadsheet was opened, the cybercriminal was able to attack the company's network and gain access to an unpublished and highly anticipated book.

Which of the following controls would be most effective to prevent such an attack?

- A. Using whitelists and blacklists to manage network traffic.
- B. Educating employees throughout the company to recognize phishing attacks.
- C. Restricting access and blocking unauthorized access to the network.
- D. Monitoring network traffic.

Answer: B

NO.18 An organization's headquarters is centrally located and the organization runs numerous computer applications in multiple sites. Which of the following would be the most appropriate approach for conducting an audit of the mainframe computer?

- A. Conduct a single consolidated audit of both the mainframe general controls and the application controls for all of the applications that use the mainframe
- B. Conduct an individual audit of the mainframe general controls and separate application control audits of the individual applications in a phased manner
- C. Conduct a series of location-based audits that cover both the general and application IT controls an systems across the location
- D. Conduct individual audits of each application and include in each audit the general controls of the mainframe relevant to the individual application

Answer: C

NO.19 Capacity overbuilding is most likely to occur when management is focused on which of the following?

- A. Finance.
- B. Production.
- C. Diversification.
- D. Marketing.

Answer: B

NO.20 Which of the following application controls, implemented by management, monitors data being processed to ensure the data remains consistent and accurate?

- A. Management trail controls.

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

Answer: B

NO.21 While conducting audit procedures at the organization's data center, an internal auditor noticed the following:

Backup media was located on data center shelves.

Backup media was organized by date.

Backup schedule was one week in duration.

The system administrator was able to present restore logs.

Which of the following is reasonable for the internal auditor to conclude?

- A. Backup media is not properly indexed, as backup media should be indexed by system, not date.
- B. Backup procedures are adequate and appropriate according to best practices.
- C. Backup schedule is not sufficient, as full backup should be conducted daily.
- D. Backup media is not properly stored, as the storage facility should be off-site.

Answer: C

NO.22 Which of the following statements accurately describes the responsibility of the internal audit activity (IAA) regarding IT governance?

- 1) The IAA does not have any responsibility because IT governance is the responsibility of the board and senior management of the organization.
- 2) The IAA must assess whether the IT governance of the organization supports the organization's strategies and objectives.
- 3) The IAA may assess whether the IT governance of the organization supports the organization's strategies and objectives.
- 4) The IAA may accept requests from management to perform advisory services regarding how the IT governance of the organization supports the organization as strategies and objectives.

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

Answer: A

NO.23 The economic order quantity for inventory is higher for an organization that has:

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

Answer: A

NO.24 An organization invests excess short-term cash in trading securities. When of the following actions should an internal auditor take to test the valuation of those securities?

- A. Perform a calculation of premium or discount amortization.

- B. Confirm the securities held by the broker
- C. Compare the carrying value with current market quotations
- D. Use the equity method to recalculate the investment carrying value

Answer: C

NO.25 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. Consult with legal and operational management in each affected country to ensure the final version can be implemented globally, following audit committee approval.
- C. Introduce the policy region by region, using any lessons learned to change the subsequent version of the policy for the next area.
- 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: B

NO.26 A clothing company sells shirts for \$8 per shirt. In order to break even, the company must sell 25,000 shirts. Actual sales total \$300,000.

What is margin of safety sales for the company?

- A. \$100,000
- B. \$200,000
- C. \$500,000
- D. \$275,000

Answer: B

NO.27 Which of the following is always true regarding the use of encryption algorithms based on public key infrastructure (PKI)?

- A. PKI uses an independent administrator to manage the public key.
- B. The private key uniquely authenticates each party to a transaction.
- C. PKI's public accessibility allows it to be used readily for e-commerce.
- D. The public key is authenticated against reliable third-party identification.

Answer: B

NO.28 Refer to the exhibit.

The figure below shows the network diagram for the activities of a large project. What is the shortest number of days in which the project can be completed?

- A. 21 days.
- B. 51 days.
- C. 22 days.
- D. 27 days.

Answer: D

NO.29 The main reason to establish internal controls in an organization is to:

- A.** Provide reasonable assurance on the achievement of objectives.
- B.** Safeguard the resources of the organization.
- C.** Ensure the accuracy, reliability, and timeliness of information.
- D.** Encourage compliance with policies and procedures.

Answer: A

NO.30 An organization had a gross profit margin of 40 percent in year one and in year two. The net profit margin was 18 percent in year one and 13 percent in year two.

Which of the following could be the reason for the decline in the net profit margin for year two?

- A.** Cost of sales increased relative to sales.
- B.** The organization had a higher dividend payout rate in year two.
- C.** Total sales increased relative to expenses.
- D.** The government increased the corporate tax rate.

Answer: A