[1] Gleim #: 1.1.1

The purposes of the *Standards* include all of the following **except**

A. Establishing the basis for the measurement of internal audit performance.
B. Guiding the ethical conduct of internal auditors.
C. Stating basic principles that represent the practice of internal auditing.
D. Fostering improved organizational processes and operations.

- Answer (A) is **incorrect**. Establishing the basis for the evaluation of internal audit performance is one of The IIA’s stated purposes of the *Standards*.
- Answer (B) is **correct**. Guiding the ethical conduct of internal auditors is the purpose of the Code of Ethics, not the *Standards*.
- Answer (C) is **incorrect**. Delineating basic principles that represent the practice of internal auditing is one of The IIA’s stated purposes of the *Standards*.
- Answer (D) is **incorrect**. Fostering improved organizational processes and operations is one of The IIA’s stated purposes of the *Standards*.

[2] Gleim #: 1.1.2

The proper organizational role of internal auditing is to

A. Assist the external auditor to reduce external audit fees.
B. Perform studies to assist in the attainment of more efficient operations.
C. Serve as the investigative arm of the board.
D. Serve as an independent, objective assurance and consulting activity that adds value to operations.

- Answer (A) is **incorrect**. Reducing external audit fees may be a direct result of internal audit work, but it is not a reason for staffing an internal audit activity.
- Answer (B) is **incorrect**. The primary role of internal auditing includes, but is not limited to, assessing the efficiency of operations.
- Answer (C) is **incorrect**. Internal auditors serve management as well as the board.
- Answer (D) is **correct**. The Definition of Internal Auditing states, in part, “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.”


One of the purposes of the *International Standards for the Professional Practice of Internal Auditing* ("the *Standards*”) is to

A. Encourage the professionalization of internal auditing.
B. Establish the independence of the internal audit activity and emphasize the objectivity of internal auditing.
C. Encourage external auditors to make more extensive use of the work of internal auditors.
D. Establish the basis for evaluating internal auditing performance.
Answer (A) is incorrect. The professionalization of internal auditing is important but is not a direct purpose of the Standards.

Answer (B) is incorrect. Independence and objectivity are but two aspects of the practice of internal auditing as it should be.

Answer (C) is incorrect. The Standards do not formally encourage external auditors to make more extensive use of the work of internal auditors.

Answer (D) is correct. The IIA provides the following purposes of the Standards:
1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal audit activities.
3. Establish the basis for evaluating internal auditing performance.
4. Foster improved organizational processes and operations.

[4] Gleim #: 1.1.4

Which Standards expand upon the other categories of Standards?

A. Performance Standards.
B. Attribute Standards.
C. Implementation Standards.
D. All of the choices are correct.

- Answer (A) is incorrect. Performance Standards apply to all internal audit services.
- Answer (B) is incorrect. Attribute Standards apply to all internal audit services.
- Answer (C) is correct. Implementation Standards expand upon the Attribute and Performance Standards. They provide requirements applicable to specific engagements.
- Answer (D) is incorrect. Only Implementation Standards expand upon the standards in other categories.


A major reason for establishing an internal audit activity is to

A. Relieve overburdened management of the responsibility for establishing effective controls.
B. Safeguard resources entrusted to the organization.
C. Ensure the reliability and integrity of financial and operational information.
D. Evaluate and improve the effectiveness of control processes.

- Answer (A) is incorrect. Management is responsible for the establishment of internal control.
- Answer (B) is incorrect. Governance, risk management, and control processes ultimately serve to safeguard the organization’s resources.
- Answer (C) is incorrect. Ensuring the reliability and integrity of financial and operational information is a management responsibility.
- Answer (D) is correct. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Definition of Internal Auditing).
[6] Gleim #: 1.1.6
An internal auditor often faces special problems when performing an engagement at a foreign subsidiary. Which of the following statements is **false** with respect to the conduct of international engagements?

A. The IIA *Standards* do not apply outside of the United States.
B. The internal auditor should determine whether managers are in compliance with local laws.
C. There may be justification for having different organizational policies in force in foreign branches.
D. It is preferable to have multilingual internal auditors conduct engagements at branches in foreign nations.

- **Answer (A) is correct.** Pronouncements by The IIA have no geographic limits. Compliance with the concepts in the *Standards* is essential for the responsibilities of internal auditors to be met, regardless of the national environment.
- **Answer (B) is incorrect.** The internal audit activity must evaluate the adequacy and effectiveness of controls, including those relating to compliance with laws, regulations, policies, procedures, and contracts.
- **Answer (C) is incorrect.** Varying laws and customs and other environmental factors justify policy differences.
- **Answer (D) is incorrect.** The internal audit activity collectively must possess the knowledge, skills, and other competencies needed to perform its responsibilities.


The purpose of the internal audit activity can be best described as

A. Adding value to the organization.
B. Providing additional assurance regarding fair presentation of financial statements.
C. Expressing an opinion on the adequate design and functioning of the system of internal control.
D. Assuring the absence of any fraud that would materially affect the financial statements.

- **Answer (A) is correct.** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations (Definition of Internal Auditing).
- **Answer (B) is incorrect.** Assisting the external auditors in their audit of the financial statements is one of many possible tasks of the internal audit activity, but it is not its primary purpose.
- **Answer (C) is incorrect.** Assessing internal control is one of many tasks of the internal audit activity, but it is not its primary purpose.
- **Answer (D) is incorrect.** Detecting fraud is one of many possible tasks of the internal audit activity, but it is not its primary purpose.
[8] Gleim #: 1.1.8
Which of the following best describes the purpose of the internal audit activity?

A. To add value and improve an organization’s operations.
B. To assist management with the design and implementation of risk management and control systems.
C. To examine and evaluate an organization’s accounting system as a service to management.
D. To monitor the organization’s internal control system for the external auditors.

- Answer (A) is correct. The Definition of Internal Auditing states, in part, “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.”
- Answer (B) is incorrect. Performing the functions of design and implementation of risk management and control systems would impair the objectivity of the internal auditors. An internal auditor may, however, recommend control standards and review procedures prior to their implementation.
- Answer (C) is incorrect. Internal auditing is much broader than examining and evaluating an organization’s accounting system.
- Answer (D) is incorrect. Internal auditing serves the organization, not the external auditors.

[9] Gleim #: 1.1.9
The internal audit activity’s scope of responsibilities includes

A. Eliminating risk.
B. Managing risk.
C. Evaluating risk.
D. Controlling risk.

- Answer (A) is incorrect. Eliminating risks is a responsibility of management.
- Answer (B) is incorrect. Managing risk is a responsibility of management.
- Answer (C) is correct. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Definition of Internal Auditing). Managing, controlling, and eliminating risk are responsibilities of management.
- Answer (D) is incorrect. Controlling risk is a responsibility of management.

[10] Gleim #: 1.1.10
The Standards consist of three types of Standards. Which Standards apply to the characteristics of providers of internal auditing services?

A. Implementation Standards.
B. Performance Standards.
C. Attribute Standards.
D. Independence Standards.
• Answer (A) is incorrect. Implementation Standards apply to specific types of engagements.
• Answer (B) is incorrect. Performance Standards describe the nature of internal auditing and provide quality criteria for evaluation of internal audit performance.
• Answer (C) is correct. Attribute Standards concern the characteristics of organizations and parties providing internal auditing services.
• Answer (D) is incorrect. The IPPF does not contain Independence Standards.


According to The IIA’s International Professional Practices Framework, which of the following constitute mandatory guidance for implementing the Standards?

A. Development Aids.
B. Practice Aids.
C. Performance Standards.
D. Practice Advisories.

• Answer (A) is incorrect. Development Aids are not part of the IPPF.
• Answer (B) is incorrect. Practice Aids are not part of the IPPF.
• Answer (C) is correct. The mandatory guidance portion of the IPPF consists of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards, Performance Standards, and Implementation Standards.
• Answer (D) is incorrect. Practice Advisories are strongly recommended guidance.


Under the Sarbanes-Oxley Act of 2002 (SOX),

A. At least one member of the audit committee must be a financial expert.
B. The chairman of the board of directors must be a financial expert.
C. The audit committee must rotate at least one seat on an annual basis.
D. All members of the audit committee must be financial experts.

• Answer (A) is correct. Under the terms of SOX, at least one member of the audit committee must be a financial expert.
• Answer (B) is incorrect. The SOX requirement regarding a financial expert does not refer to the chairman of the board.
• Answer (C) is incorrect. SOX imposes no requirements regarding membership rotation of the audit committee.
• Answer (D) is incorrect. Under the terms of SOX, only one member of the audit committee need be a financial expert.
The Sarbanes-Oxley Act of 2002 (SOX) imposes which of the following requirements?

A. The board of directors must be composed entirely of independent shareholders.
B. At least one member of the audit committee must be a former partner of the independent public accounting firm.
C. The audit committee must be composed entirely of independent members of the board.
D. Once the audit committee has selected the independent public accounting firm, the committee must not interfere with the firm’s conduct of the financial statement audit.

- Answer (A) is incorrect. The SOX requirement regarding independent members refers to the audit committee, not the entire board.
- Answer (B) is incorrect. SOX does not impose a requirement regarding mandatory former employment with the independent public accounting firm.
- Answer (C) is correct. Under the terms of SOX, each member of the issuer’s audit committee must be an independent member of the board of directors. To be independent, a director must not be affiliated with, or receive any compensation (other than for service on the board) from, the issuer.
- Answer (D) is incorrect. The audit committee must be directly responsible for appointing, compensating, and overseeing the work of the independent auditor.

[14] Gleim #: 1.1.14
Which one of the following must be included in the internal audit charter?

A. Internal audit scope.
B. Internal audit responsibility.
C. Chief audit executive’s compensation plan.
D. Number of full-time internal audit employees deemed to be the necessary minimum.

- Answer (A) is incorrect. Scope is an aspect of individual internal audit engagements.
- Answer (B) is correct. The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter.
- Answer (C) is incorrect. The CAE’s compensation plan is not an appropriate matter to include in the internal audit charter.
- Answer (D) is incorrect. The staffing of the internal audit activity is determined by the CAE and the board; it is not an appropriate matter to include in the internal audit charter.

[15] Gleim #: 1.1.15
Which one of the following is not included in the internal audit charter?

A. Risk assessment of the internal audit activity.
B. Responsibility of the internal audit activity.
C. Purpose of the internal audit activity.
D. Authority of the internal audit activity.
• Answer (A) is correct. A risk assessment is not appropriate for inclusion in the internal audit charter.
• Answer (B) is incorrect. The appropriate contents of the internal audit charter are the purpose, authority, and responsibility of the internal audit activity.
• Answer (C) is incorrect. The appropriate contents of the internal audit charter are the purpose, authority, and responsibility of the internal audit activity.
• Answer (D) is incorrect. The appropriate contents of the internal audit charter are the purpose, authority, and responsibility of the internal audit activity.

[16] Gleim #: 1.1.16

The transportation department of a publicly held company has asked the internal audit activity to review the design specifications for a proposed new warehouse and repair facility. The best reason for the internal audit activity to decline the request is

A. Such a review does not fall within the authority granted in the internal audit charter.
B. The CEO and the head of the transportation department are neighbors and belong to the same social clubs.
C. The internal audit activity performed a thorough review of the transportation department the previous year.
D. The transportation department’s budget is immaterial to the organization’s total budget.

• Answer (A) is correct. The internal audit activity’s purpose, authority, and responsibility are specifically granted in the form of a written charter approved by the board.
• Answer (B) is incorrect. An attitude of independence is required for internal auditors, not for auditees and management.
• Answer (C) is incorrect. Internal audit engagements are scheduled based on a risk assessment, not simply time elapsed since the last engagement.
• Answer (D) is incorrect. Internal audit engagements are scheduled based on a risk assessment, only one of the elements of which is monetary materiality.

[17] Gleim #: 1.1.17

The purpose, authority, and responsibility of the internal audit activity are formally defined in

A. The records of the proceedings of the board of directors.
B. The corporate bylaws.
C. The memorandum of understanding.
D. A formal, written charter.
• Answer (A) is incorrect. While the records of board meetings do reflect discussions related to the internal audit charter, they are no substitute for an actual formal charter.
• Answer (B) is incorrect. The corporate bylaws are not the appropriate place to define the purpose, authority, and responsibility of the internal audit activity.
• Answer (C) is incorrect. A memorandum of understanding is an agreement between parties expressing their common will that does not necessarily contain the elements of a contract.
• Answer (D) is correct. The purpose, authority, and responsibility of the internal audit activity must be formally defined in a written charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

[18] Gleim #: 1.1.18

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

A. Auditing and engagement.  
B. Auditing and consulting.  
C. Assurance and consulting.  
D. Auditing and assurance.

• Answer (A) is incorrect. Engagement is not a type of internal audit service.
• Answer (B) is incorrect. The IIA Glossary defines assurance and consulting, not auditing and consulting, as the types of services provided by the internal audit activity.
• 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).
• Answer (D) is incorrect. The IIA Glossary defines assurance and consulting, not auditing and assurance, as the types of services provided by the internal audit activity.

[19] Gleim #: 1.1.19

Support from which persons or combination of persons listed below is most important to the success of the internal audit activity?

A. The chief executive officer and chief financial officer.  
B. The chief executive officer.  
C. Management and the board.  
D. The audit committee.

• Answer (A) is incorrect. The support of management and the board is crucial when inevitable conflicts arise between the internal audit activity and the department or function under review.
• Answer (B) is incorrect. The support of management and the board is crucial when inevitable conflicts arise between the internal audit activity and the department or function under review.
• Answer (C) is correct. The support of management and the board is crucial when inevitable conflicts arise between the internal audit activity and the department or function under review.
• Answer (D) is incorrect. The support of management and the board is crucial when inevitable conflicts arise between the internal audit activity and the department or function under review.
[20] Gleim #: 1.1.20

Which of the following is not appropriate for inclusion in the internal audit charter?

A. The nature of the chief audit executive’s functional reporting relationship with the board.
B. Authorization of internal audit access to records, personnel, and physical properties.
C. Definition of the scope of internal audit activities.
D. Authorization of the board to approve the charter.

• Answer (A) is incorrect. The nature of the chief audit executive’s functional reporting relationship with the board is one of the elements to be included in the internal audit charter.
• Answer (B) is incorrect. Authorization of internal audit access to records, personnel, and physical properties is one of the elements to be included in the internal audit charter.
• Answer (C) is incorrect. Definition of the scope of internal audit activities is one of the elements to be included in the internal audit charter.
• Answer (D) is correct. Final approval of the internal audit charter resides with the board. The board has this power inherently.

[21] Gleim #: 1.2.21

A primary purpose of establishing a code of conduct within a professional organization is to

A. Reduce the likelihood that members of the profession will be sued for substandard work.
B. Ensure that all members of the profession perform at approximately the same level of competence.
C. Promote an ethical culture among professionals who serve others.
D. Require members of the profession to exhibit loyalty in all matters pertaining to the affairs of their organization.

• Answer (A) is incorrect. Although this result may follow from establishing a code of conduct, it is not the primary purpose. To consider it so would be self-serving.
• Answer (B) is incorrect. A code of conduct can help to establish minimum standards of competence, but it would be impossible to ensure equality of competence by all members of a profession.
• Answer (C) is correct. The IIA’s Code of Ethics is typical. Its purpose is “to promote an ethical culture in the profession of internal auditing.” The definition of internal auditing states that it is “an independent, objective assurance and consulting activity.” Moreover, internal auditing is founded on “the trust placed in its objective assurance about governance, risk management, and control.” Accordingly, internal auditors are professionals who serve others by providing assurance and consulting services.
• Answer (D) is incorrect. In some situations, responsibility to the public at large may conflict with and be more important than loyalty to one’s organization.
[22] Gleim #: 1.2.22

An accounting association established a code of ethics for all members. What is one of the association’s primary purposes of establishing the code of ethics?

A. To outline criteria for professional behavior to maintain standards of integrity and objectivity.
B. To establish standards to follow for effective accounting practice.
C. To provide a framework within which accounting policies could be effectively developed and executed.
D. To outline criteria that can be used in conducting interviews of potential new accountants.

- Answer (A) is correct. The primary purpose of a code of ethical behavior for a professional organization is to promote an ethical culture among professionals who serve others.
- Answer (B) is incorrect. National standards-setting bodies, not a code of ethics, provide guidance for effective accounting practice.
- Answer (C) is incorrect. A code of ethics does not provide the framework within which accounting policies are developed.
- Answer (D) is incorrect. The primary purpose is not for interviewing new accountants.

[23] Gleim #: 1.2.23

The best reason for establishing a code of conduct within an organization is that such codes

A. Are typically required by governments.
B. Express standards of individual behavior for members of the organization.
C. Provide a quantifiable basis for personnel evaluations.
D. Have tremendous public relations potential.

- Answer (A) is incorrect. Governments typically lack the power to impose ethical codes on nongovernment personnel (the Sarbanes-Oxley Act of 2002 contains a partial exception to this general rule).
- Answer (B) is correct. An organization’s code of ethical conduct is the established general value system the organization wishes to apply to its members’ activities. It communicates organizational purposes and beliefs and establishes uniform ethical guidelines for members, which include guidance on behavior for members in making decisions.
- Answer (C) is incorrect. Codes of conduct provide qualitative, not quantitative, standards.
- Answer (D) is incorrect. Other purposes of a code of conduct are much more significant.


The code of ethics of a professional organization sets forth

A. Broad standards of conduct for the members of the organization.
B. The organizational details of the profession’s governing body.
C. A list of illegal activities that are proscribed to the members of the profession.
D. A basis for the measurement of internal audit performance.
• Answer (A) is correct. An organization’s code of ethical conduct is the established general value system the organization wishes to apply to its members’ activities by communicating organizational purposes and beliefs and establishing uniform ethical guidelines for members, which include guidance on behavior for members in making decisions.

• Answer (B) is incorrect. The organizational details of the profession’s governing body are stated in the by-laws of a professional organization.

• Answer (C) is incorrect. Certain actions may be legal, but contrary to an organization’s code of ethics. For example, an internal auditor may not perform a service for which (s)he does not possess the necessary knowledge, skills, and experience.

• Answer (D) is incorrect. The Standards establish a basis for the measurement of internal audit performance.

[25] Gleim #: 1.2.25

In analyzing the differences between two recently merged businesses, the chief audit executive of Organization A notes that it has a formal code of ethics and Organization B does not. The code of ethics covers such things as purchase agreements, relationships with vendors, and other issues. Its purpose is to guide individual behavior within the firm. Which of the following statements regarding the existence of the code of ethics in A can be logically inferred?

I. A exhibits a higher standard of ethical behavior than does B.
II. A has established objective criteria by which an individual’s actions can be evaluated.
III. The absence of a formal code of ethics in B would prevent a successful review of ethical behavior in that organization.

A. I and II.
B. II only.
C. III only.
D. II and III.

• Answer (A) is incorrect. The mere existence of A’s code of ethics does not ensure that its principles are followed.

• Answer (B) is correct. A formal code of ethics effectively (1) communicates acceptable values to all members, (2) provides a method of policing and disciplining members for violations, (3) establishes objective standards against which individuals can measure their own performance, and (4) communicates the organization’s value system to outsiders.

• Answer (C) is incorrect. The absence of a formal code of ethics does not preclude a successful review of ethical behavior in an organization. Policies and procedures may provide the criteria for such an engagement.

• Answer (D) is incorrect. The existence of a code of ethics does establish objective criteria by which individual actions can be evaluated. However, the absence of a formal code of ethics does not preclude a successful review of ethical behavior in an organization. Policies and procedures may provide the criteria for such an engagement.
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. Public knowledge of its contents and purpose.
D. Provisions for disciplinary action in the event of violations.

- Answer (A) is incorrect. Periodic review and acknowledgment would ensure employee knowledge and acceptance of the code, which are not at issue.
- Answer (B) is incorrect. Employee involvement in development would encourage employee acceptance, which is not at issue.
- Answer (C) is incorrect. Public knowledge might affect the behavior of some individuals but not to the same extent as the perceived likelihood of sanctions for wrongdoing.
- Answer (D) 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 formal code of ethics should do all of the following except

A. Effectively communicate acceptable values to all members.
B. Communicate the organization’s value system to outsiders.
C. Reflect only legal standards of conduct for individuals and the organization.
D. Provide a method of policing and disciplining members of the organization for violations.

- Answer (A) is incorrect. A code of ethics should effectively communicate acceptable values to all organization members.
- Answer (B) is incorrect. A code of ethics should communicate the organization’s value system to those outside the organization.
- Answer (C) is correct. An ethical organization aspires to a higher standard of behavior than mere legality.
- Answer (D) is incorrect. A code of ethics should indeed provide a method of policing and disciplining members for violations.

A typical code of ethical conduct for financial managers or management accountants in an organization requires all of the following except

A. Integrity and a refusal to compromise professional values for the sake of personal goals.
B. Independence from conflicts of economic interest.
C. Independence from conflicts of professional interest.
D. Subjectivity in presenting information, preparing reports, and making analyses.
• Answer (A) is incorrect. A typical code of ethical conduct for financial managers or management accountants in an organization requires integrity and a refusal to compromise professional values for the sake of personal goals.
• Answer (B) is incorrect. A typical code of ethical conduct for financial managers or management accountants requires independence from conflicts of economic interest.
• Answer (C) is incorrect. A typical code of ethical conduct for financial managers or management accountants requires independence from conflicts of professional interest.
• Answer (D) is correct. The code of ethical conduct for financial managers or management accountants in an organization should require credibility in presenting information, preparing reports, and making analyses.

[29] Gleim #: 1.2.29

Objectivity is an ethical requirement for all persons engaged in the professional practice of internal auditing. One aspect of objectivity requires

A. Performance of professional duties in accordance with relevant laws.
B. Avoidance of conflict of interest.
C. Refraining from using confidential information for unethical or illegal advantage.
D. Maintenance of an appropriate level of professional expertise.

• Answer (A) is incorrect. Observing the law is a component of integrity.
• Answer (B) is correct. Commitment to independence from conflicts of economic or professional interest is an aspect of objectivity.
• Answer (C) is incorrect. Refraining from using confidential information for unethical or illegal advantage is an aspect of confidentiality.
• Answer (D) is incorrect. Maintenance of an appropriate level of professional expertise is an aspect of competency.

[30] Gleim #: 1.3.30

The IIA Rules of Conduct set forth in The IIA’s Code of Ethics

A. Describe behavior norms expected of internal auditors.
B. Are guidelines to assist internal auditors in dealing with engagement clients.
C. Are interpreted by the Principles.
D. Apply only to particular conduct specifically mentioned.

• Answer (A) is correct. The IIA’s Code of Ethics extends beyond the definition of internal auditing to include two essential components: (1) Principles that are relevant to the profession and practice of internal auditing and (2) Rules of Conduct that describe behavior norms expected of internal auditors (Introduction).
• Answer (B) is incorrect. The Rules of Conduct provide guidance to internal auditors in the discharge of their responsibility to all those whom they serve. Engagement clients are not the only parties served by internal auditing.
• Answer (C) is incorrect. The Rules of Conduct are an aid in interpreting the Principles.
• Answer (D) is incorrect. The conduct may be unacceptable or discreditable although not mentioned in the Rules of Conduct.
[31] Gleim #: 1.3.31

Today’s internal auditor will often encounter a wide range of potential ethical dilemmas, not all of which are explicitly addressed by The IIA’s Code of Ethics. If the internal auditor encounters such a dilemma, the internal auditor should always

A. Seek counsel from an independent attorney to determine the personal consequences of potential actions.
B. Apply and uphold the principles embodied in The IIA’s Code of Ethics.
C. Seek the counsel of the board before deciding on an action.
D. Act consistently with the code of ethics adopted by the organization even if such action is not consistent with The IIA’s Code of Ethics.

- Answer (A) is incorrect. Seeking the advice of legal counsel on all ethical decisions is impracticable.
- Answer (B) is correct. The Code includes Principles (integrity, objectivity, confidentiality, and competency) relevant to the profession and practice of internal auditing and Rules of Conduct that describe behavioral norms for internal auditors and that interpret the Principles. Internal auditors are expected to apply and uphold the Principles. Furthermore, that a particular conduct is not mentioned in the Rules does not prevent it from being unacceptable or discreditable.
- Answer (C) is incorrect. Seeking the advice of the board on all ethical decisions is impracticable. Furthermore, the advice might not be consistent with the profession’s standards.
- Answer (D) is incorrect. If the organization’s standards are not consistent with, or as high as, the profession’s standards, the internal auditor is held to the standards of the profession.

[32] Gleim #: 1.3.32

In complying with The IIA’s Code of Ethics, an internal auditor should

A. Use individual judgment in the application of the principles set forth in the Code.
B. Respect and contribute to the objectives of the organization even if it is engaged in illegal activities.
C. Go beyond the limitation of personal technical skills to advance the interest of the organization.
D. Primarily apply the competency principle in establishing trust.
• Answer (A) is correct. The IIA’s Code of Ethics includes principles that internal auditors are expected to apply and uphold. They are interpreted by the Rules of Conduct, behavior norms expected of internal auditors. That a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable. Consequently, a reasonable inference is that individual judgment is necessary in the application of the principles and the Rules of Conduct.

• Answer (B) is incorrect. An internal auditor “shall not knowingly be a party to any illegal activity.” Furthermore, an internal auditor is bound to respect and contribute only to the legitimate and ethical objectives of the organization.

• Answer (C) is incorrect. Internal auditors “shall engage only in those services for which they have the necessary knowledge, skills, and experience.”

• Answer (D) is incorrect. Applying and upholding the integrity principle is the means by which an internal auditor establishes trust as a basis for reliance on his/her judgment.

[33] Gleim #: 1.3.33

An internal auditor, recently terminated by an organization due to downsizing, has found a job with another organization in the same industry. Which of the following disclosures made by the internal auditor to the new organization would constitute a violation of The IIA’s Code of Ethics?

A. The internal auditor used the risk assessment approach that was used by the internal auditor’s former employer in determining priorities in the new job.

B. The new internal audit activity does not use PPS sampling, and the internal auditor believes PPS sampling has advantages for many of the engagements conducted by the new employer. The internal auditor conducts training sessions and develops forms to implement sampling in the same manner as the previous employer.

C. While at the previous firm, the internal auditor conducted a great deal of research to identify “best practices” for the management of the treasury function. Because most of the research was done at home and during non-office hours, the internal auditor retained much of the research and plans to use it in conducting a review of the treasury function at the new employer.

D. None of the answers represent a violation of the Code.

• Answer (A) is incorrect. Disclosing the former employer’s risk assessment approach does not violate the Code.

• Answer (B) is incorrect. Disclosing sampling methods does not violate the Code.

• Answer (C) is incorrect. Disclosing information about best practices of other organizations does not violate the Code.

• Answer (D) is correct. The former employer’s risk assessment approach may be viewed as general information about “best practices.” Hence, applying this approach on behalf of a new employer is acceptable. With regard to the former employer’s sampling methods, the internal auditor is applying knowledge of a commonly used engagement procedure. It is not confidential information. Moreover, gathering information about best practices of other organizations is part of the continuing education of the internal auditor. Thus, the listed responses are not violations of the Code.
[34] Gleim #: 1.3.34
An internal auditor who encounters an ethical dilemma not explicitly addressed by The IIA’s Code of Ethics should always

A. Seek counsel from an independent attorney to determine the personal consequences of potential actions.
B. Take action consistent with the principles embodied in The IIA’s Code of Ethics.
C. Seek the counsel of the audit committee before deciding on an action.
D. Act consistently with the employing organization’s code of ethics even if such action would not be consistent with The IIA’s Code of Ethics.

• Answer (A) is incorrect. The auditor must act consistently with the spirit of The IIA’s Code of Ethics. It is not practical to seek the advice of legal counsel for all ethical decisions. Moreover, unethical behavior may not be illegal.
• Answer (B) is correct. The IIA’s Code of Ethics is based on principles relevant to the profession and practice of internal auditing that internal auditors are expected to apply and uphold: integrity, objectivity, confidentiality, and competency. Furthermore, the Code states that particular conduct may be unacceptable or discreditable even if it is not mentioned in the Rules of Conduct.
• Answer (C) is incorrect. It is not feasible to seek the audit committee’s advice for all potential dilemmas. Furthermore, the advice might not be consistent with the profession’s standards.
• Answer (D) is incorrect. If the organization’s standards are not consistent with, or as high as, the profession’s standards, the internal auditor should abide by the latter.

[35] Gleim #: 1.3.35
The IIA’s Code of Ethics does not require

A. Contribution to the legitimate and ethical objectives of the organization.
B. Objectivity, honesty, and diligence.
C. Continual improvement in proficiency.
D. A report on each engagement.

• Answer (A) is incorrect. Rule of Conduct 1.4 states, “Internal auditors shall respect and contribute to the legitimate and ethical objectives of the organization.”
• Answer (B) is incorrect. Rule of Conduct 1.1 imposes an obligation of honesty, diligence, and responsibility. Moreover, objectivity is one of the four Principles stated in the Code.
• Answer (C) is incorrect. Continual improvement in proficiency and in the effectiveness and quality of services is required by Rule of Conduct 4.3.
• Answer (D) is correct. The Standards, not the Code of Ethics, require internal auditors to communicate the engagement results.
[36] Gleim #: 1.4.36
An internal auditor working for a chemical manufacturer believed that toxic waste was being dumped in violation of the law. Out of loyalty to the organization, no information regarding the dumping was collected. The internal auditor

A. Violated the Code of Ethics by knowingly becoming a party to an illegal act.
B. Violated the Code of Ethics by failing to protect the well-being of the general public.
C. Did not violate the Code of Ethics. Loyalty to the employer in all matters is required.
D. Did not violate the Code of Ethics. Conclusive information about wrongdoing was not gathered.

- Answer (A) is correct. Rule of Conduct 1.3 under the integrity principle prohibits knowingly being a party to any illegal activity. By failing to collect information about a known violation of law, the auditor became party to the illegal act.
- Answer (B) is incorrect. The IIA’s Code of Ethics does not impose a duty to the general public.
- Answer (C) is incorrect. The IIA’s Code of Ethics does not impose an overriding duty of loyalty to the employer.
- Answer (D) is incorrect. The internal auditor should have collected and reported such information in accordance with the Standards.

[37] Gleim #: 1.4.37
Which of the following is permissible under The IIA’s Code of Ethics?

A. 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.
B. An auditor used audit-related information in a decision to buy stock issued by the employer corporation.
C. After praising an employee in a recent audit engagement communication, an auditor accepted a gift from the employee.
D. An auditor did not report significant observations about illegal activity to the board because management indicated that it would resolve the issue.

- Answer (A) is correct. Rule of Conduct 1.2 under the integrity principal states, “Internal auditors shall observe the law and make disclosures expected by the law and the profession.” Thus, auditors must comply with subpoenas.
- Answer (B) is incorrect. Rule of Conduct 3.2 prohibits auditors from using audit information for personal gain.
- Answer (C) is incorrect. Rule of Conduct 2.2 prohibits an auditor from accepting anything that might be presumed to impair the auditor’s professional judgment.
- Answer (D) is incorrect. Rule of Conduct 1.3 prohibits auditors from knowingly being a party to any illegal or improper activity. Significant observations of illegal activity should be reported to the board.
[38] Gleim #: 1.4.38
The IIA’s Code of Ethics requires internal auditors to perform their work with

A. Honesty, diligence, and responsibility.
B. Timeliness, sobriety, and clarity.
C. Knowledge, skills, and competencies.
D. Punctuality, objectivity, and responsibility.

- Answer (A) is correct. Rule of Conduct 1.1 under the integrity principle states, “Internal auditors shall perform their work with honesty, diligence, and responsibility.”
- Answer (B) is incorrect. Timeliness, sobriety, and clarity are not mentioned in the Code.
- Answer (C) is incorrect. Knowledge, skills, and competencies are mentioned in the Standards.
- Answer (D) is incorrect. Punctuality is not mentioned in the Code.

[39] Gleim #: 1.4.39
Which situation is most likely a violation of The IIA’s Code of Ethics?

A. Reporting apparent violations of antitrust statutes by officers to government regulators.
B. Cooperating with the government’s criminal investigation of the organization.
C. Reporting apparent violations of antitrust statutes by officers to the board of directors.
D. Immediately reporting a violent crime observed at work to local law enforcement agencies.

- Answer (A) is correct. An internal auditor must not knowingly be a party to any illegal activity (Rule of Conduct 1.3), and (s)he must disclose all material facts known to him/her that, if not disclosed, might distort the reporting of activities under review (Rule of Conduct 2.3). An internal auditor also must respect and contribute to the legitimate and ethical objectives of the organization (Rule of Conduct 1.4). Thus, when apparent violations of antitrust statutes by officers come to the internal auditor’s attention, (s)he should report to the board of directors rather than directly to the government regulators. An internal auditor must also observe the law and make any disclosures required by the law or by the profession (Rule of Conduct 1.2).
- Answer (B) is incorrect. Everyone has a legal obligation to cooperate with a criminal investigation. An internal auditor must observe the law and make any disclosures required by the law or by the profession (Rule of Conduct 1.2).
- Answer (C) is incorrect. An internal auditor should report apparent improprieties to the board.
- Answer (D) is incorrect. Everyone has a legal and moral obligation to report violent crimes immediately.
[40] Gleim #: 1.5.40
In applying the Rules of Conduct set forth in The IIA’s Code of Ethics, internal auditors are expected to
A. Not be unduly influenced by their own interests in forming judgments.
B. Compare them with standards of other professions.
C. Be guided by the desires of the engagement client.
D. Use discretion in deciding whether to use them.

- Answer (A) is correct. The objectivity principle contained in The IIA’s Code of Ethics states, in part, “Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.”
- Answer (B) is incorrect. Standards of other professions are not intended to provide guidance to internal auditors.
- Answer (C) is incorrect. Auditors should be independent of the engagement client.
- Answer (D) is incorrect. Internal auditors must follow The IIA’s Code of Ethics.

[41] Gleim #: 1.5.41
Which of the following statements is not appropriate to include in a manufacturer’s conflict of interest policy? An employee shall not
A. Accept money, gifts, or services from a customer.
B. Participate (directly or indirectly) in the management of a public agency.
C. Borrow from or lend money to vendors.
D. Use organizational information for private purposes.

- Answer (A) is incorrect. A conflict of interest policy should prohibit the transfer of benefits between an employee and those with whom the organization deals.
- Answer (B) is correct. A prohibition on public service is ordinarily inappropriate. Public service is a right, if not a duty, of all citizens.
- Answer (C) is incorrect. A conflict of interest policy should prohibit financial dealings between an employee and those with whom the organization deals.
- Answer (D) is incorrect. A conflict of interest policy should prohibit the use of organization information for private gain.
A CIA is working in a noninternal-auditing position as the director of purchasing. The CIA signed a contract to procure a large order from the supplier with the best price, quality, and performance. Shortly after signing the contract, the supplier presented the CIA with a gift of significant monetary value. Which of the following statements regarding the acceptance of the gift is true?

A. Acceptance of the gift is prohibited only if it is not customary.
B. Acceptance of the gift violates The IIA’s Code of Ethics and is prohibited for a CIA.
C. Because the CIA is no longer acting as an internal auditor, acceptance of the gift is governed only by the organization’s code of conduct.
D. Because the contract was signed before the gift was offered, acceptance of the gift does not violate either The IIA’s Code of Ethics or the organization’s code of conduct.

- Answer (A) is **incorrect**. Acceptance of the gift could easily be presumed to have impaired the CIA’s professional judgment.
- Answer (B) is **correct**. Members of The Institute of Internal Auditors and recipients of, or candidates for, IIA professional certifications are subject to disciplinary action for breaches of The IIA’s Code of Ethics. Rule of Conduct 2.2 under the objectivity principle states, “Internal auditors shall not accept anything that may impair or be presumed to impair their professional judgment.”
- Answer (C) is **incorrect**. The CIA is still governed by The IIA’s code of conduct.
- Answer (D) is **incorrect**. The timing of signing the contract is irrelevant.

The chief audit executive (CAE) has been appointed to a committee to evaluate the appointment of the external auditors. The engagement partner for the external accounting firm wants the CAE to join her for a week of hunting at her private lodge. The CAE should

A. Accept, assuming both their schedules allow it.
B. Refuse on the grounds of conflict of interest.
C. Accept as long as it is not charged to employer time.
D. Ask the comptroller whether accepting the invitation is a violation of the organization’s code of ethics.

- Answer (A) is **incorrect**. The auditor should not accept.
- Answer (B) 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.” Furthermore, under Rule of Conduct 2.2, “Internal auditors shall not accept anything that may impair or be presumed to impair their professional judgment.”
- Answer (C) is **incorrect**. Not charging the time to the company is not sufficient to eliminate conflict-of-interest concerns.
- Answer (D) is **incorrect**. The auditor should know that accepting the invitation raises conflict of interest issues.