Question: 1
Directors, management, external auditors, and internal auditors all play important roles in creating proper control processes. Senior management is primarily responsible for

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<tbody>
<tr>
<td>A.</td>
<td>Establishing and maintaining an organizational culture.</td>
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</table>

**Answer (A) is correct.**

Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that goals and objectives will be achieved. Management periodically reviews its objectives and goals and modifies its processes to accommodate changes in internal and external conditions. Management also establishes and maintains an organizational culture, including an ethical climate that fosters control.

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<tbody>
<tr>
<td>B.</td>
<td>Reviewing the reliability and integrity of financial and operational information.</td>
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<tr>
<td>C.</td>
<td>Ensuring that external and internal auditors oversee the administration of the system of risk management and control processes.</td>
</tr>
<tr>
<td>D.</td>
<td>Implementing and monitoring controls designed by the board of directors.</td>
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Question: 2
Which of the following statements regarding corporate governance is not correct?

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<tbody>
<tr>
<td>A.</td>
<td>Corporate control mechanisms include internal and external mechanisms.</td>
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<tr>
<td>B.</td>
<td>The compensation scheme for management is part of the corporate control mechanisms.</td>
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<tr>
<td>C.</td>
<td>The dilution of shareholders’ wealth resulting from employee stock options or employee stock bonuses is an accounting issue rather than a corporate governance issue.</td>
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<tr>
<td>D.</td>
<td>The internal auditor of a company has more responsibility than the board for the company’s corporate governance.</td>
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</table>

**Answer (D) is correct.**

Governance is the responsibility of the board. Internal audit’s responsibility is to assess governance processes and make appropriate recommendations for improvement.

Question: 3
Ensuring effective organizational performance management and accountability is most directly the proper function of

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<tbody>
<tr>
<td>A.</td>
<td>Control.</td>
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<tr>
<td>B.</td>
<td>Governance.</td>
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</table>
Answer (B) is **correct**.

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization
- Ensuring effective organizational performance management and accountability
- Communicating risk and control information to appropriate areas of the organization
- Coordinating the activities of and communicating information among the board, external and internal auditors and management

Question: 4
Which of the following is **not** a role of the internal audit activity in best practice governance activities?

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<tbody>
<tr>
<td>A.</td>
<td>Support the board in enterprise-wide risk assessment.</td>
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<tr>
<td>B.</td>
<td>Ensure the timely implementation of audit recommendations.</td>
</tr>
<tr>
<td>C.</td>
<td>Monitor compliance with the corporate code of conduct.</td>
</tr>
<tr>
<td>D.</td>
<td>Discuss areas of significant risks.</td>
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</table>

Answer (B) is **correct**.

Management has the responsibility of ensuring the timely implementation of the audit recommendations. The internal audit activity is responsible for the development of a timely procedure to monitor the disposition of the audit recommendations. It works with senior management and the board to ensure that audit recommendations receive appropriate attention.

Question: 5
The internal audit activity has a role in an organization’s governance process. The internal audit activity most directly contributes to this process by

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<tr>
<td>A.</td>
<td>Identifying significant exposures to risk.</td>
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<tr>
<td>B.</td>
<td>Evaluating the effectiveness of the risk-management system.</td>
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</tbody>
</table>
The role of the internal audit activity in the ethical culture of an organization is to

A. Avoid active support of the ethical culture because of possible loss of independence.

B. Evaluate the effectiveness of the organization’s formal code of conduct.

Answer (B) is correct.
The internal audit activity periodically assesses the elements of the ethical climate of the organization and its effectiveness in achieving legal and ethical compliance. Internal auditors therefore evaluate the effectiveness of, among other things, a formal code of conduct and related statements and policies.

C. Assume accountability for the effectiveness of the governance process.

D. Become the chief ethics officer.

A code of conduct was developed several years ago and distributed by a large financial institution to all its officers and employees. What is the internal auditor’s best approach to providing the board with the
highest level of comfort about the code of conduct?

A. Fully evaluate the comprehensiveness of the code and the institution’s compliance with it, and report the results to the board.

Answer (A) is correct.
When evaluating a code of conduct, it is important to consider two items: comprehensiveness and compliance. The code should address the ethical issues that the employees are expected to encounter and provide suitable guidance. The internal auditor also must consider the extent to which employees are complying with the standards established.

B. Fully evaluate organizational practices for compliance with the code, and report to the board.

C. Review employee activities for compliance with provisions of the code, and report to the board.

D. Perform tests on various employee transactions to detect potential violations of the code of conduct.

**Question: 8**

What are the major components of governance?

I. Strategic direction
II. Oversight
III. Regulations
IV. Ethics

A. I and II only.

Answer (A) is correct.
Strategic direction determines (1) the business model, (2) overall objectives, (3) the risk appetite, and (4) the limits of organizational conduct. The elements of oversight are (1) the board’s responsibilities to stakeholders, (2) the risk management activities of senior management and the board, and (3) internal and external assurance activities.

B. I, II, and IV only.

C. III and IV only.

D. II and IV only.

**Question: 9**

Which of the following correctly classifies the corporate governance functions as internal or external?

<table>
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<tr>
<th>Internal</th>
<th>External</th>
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<tbody>
<tr>
<td>A.</td>
<td>Corporate charter</td>
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<td>B.</td>
<td>Bylaws</td>
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<td>C.</td>
<td>Laws</td>
</tr>
<tr>
<td>D.</td>
<td>Board of directors</td>
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</table>

**Answer (D) is correct.**

Bylaws are an example of internal corporate governance, and laws, regulations, and the government regulators who enforce them are examples of external governance.

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**Question: 10**

Which of the following is **not** a goal of corporate governance?

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<tbody>
<tr>
<td>A.</td>
<td>Complying with society’s legal and regulatory rules.</td>
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<tr>
<td>B.</td>
<td>Providing an overall benefit to society.</td>
</tr>
<tr>
<td>C.</td>
<td>Reporting fully and truthfully to stakeholders.</td>
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<tr>
<td>D.</td>
<td>Earning a profit.</td>
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</table>

**Answer (D) is correct.**

Governance practices may use various legal forms, structures, strategies, and procedures. They ensure that the organization (1) complies with society’s legal and regulatory rules; (2) satisfies the generally accepted business norms, ethical principles, and social expectations of society; (3) provides overall benefit to society and enhances the interests of the specific stakeholders in both the long- and short-term; and (4) reports fully and truthfully to its stakeholders, including the public, to ensure accountability for its decisions, actions, and performances. But earning a profit is not a goal of corporate governance.

---

**Question: 11**

A corporation’s results met the expectations of the market, but many people in the organization noticed that they were overly optimistic. Moreover, no one suggested that the results be changed. Who, whether officially or informally, should have been an ethics advocate regarding the results?

I. Senior management  
II. Internal auditors  
III. Employees in the accounting department

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<tr>
<td>A.</td>
<td>I only.</td>
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<td>B.</td>
<td>I and II only.</td>
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<tr>
<td>C.</td>
<td>I and III only.</td>
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<tr>
<td>D.</td>
<td>I, II, and III.</td>
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Because decision making in most organizations is complex and dispersed, each individual should be an ethics advocate, whether officially or informally. Thus, it is the responsibility of senior management, the internal auditors, and the employees in the accounting department to be ethics advocates and suggest that the results might not be accurate.

Question: 12
Organizations take corporate governance seriously due to its influence on

I. Internal stakeholders
II. External stakeholders
III. The public
IV. Regulatory agencies

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

Answer (C) is correct.
Governance is the combination of people, policies, procedures, and processes (including internal control) that help ensure that an entity effectively and efficiently directs its activities toward meeting the objectives of its stakeholders. Stakeholders are persons or entities who are affected by the activities of the entity. Among others, these include shareholders, employees, suppliers, customers, neighbors of the entity’s facilities, and government regulators.

D. I, II, and IV only.

Question: 14
Which of the following is most likely an internal audit role in a less structured governance process?

A. Designing specific governance processes.
B. Playing a consulting role in optimizing governance practices and structure.
C. Providing advice about basic risks to the organization.

Answer (C) is correct.
A less mature governance system will emphasize the requirements for compliance with policies, procedures, plans, laws, regulations, and contracts. It will also address the basic risks to the organization. Thus, the internal audit activity will provide advice about such matters. As the governance process becomes more
structured, the internal audit activity’s emphasis will shift to optimizing the governance structure and practices.

D. Evaluating the effectiveness of specific governance processes.

Question: 15 Which of the following is a situation in which an internal auditor’s role of chief ethics officer conflicts with the independence attribute of the internal audit activity?

A. The chief ethics officer requests that the internal auditors assess whether the organization as a whole is not complying with the organization’s code of conduct.

B. The chief ethics officer informs the board of recommendations made by the internal audit activity regarding the organization’s compliance with the code of conduct.

Question: 16 Careful Corp. always has its internal auditors review transactions between Careful Corp. and its subsidiary, Risky Corp., to ensure that the transactions are carried out in a fair and transparent manner. This practice is most closely related to which of the following governance principles?

A. Oversight of related party transactions and conflicts of interest.

Answer (A) is correct. Since Careful Corp. and Risky Corp. are related (a parent and its subsidiary), having the internal auditors review transactions between Careful and Risky is most closely related to the governance principle of oversight of related party transactions and conflicts of interest.

B. Effective interaction among the board, management, and assurance providers.

C. An organizational structure that supports accomplishing strategic objectives.

D. An organizational structure used to measure organizational and individual performance.

Question: 17 Which of the following statements regarding oversight as a component of governance is false?

A. Risk management activities are performed by senior management and risk owners.
B. Oversight includes internal and external assurance activities.

C. Oversight is the governance component with which internal auditing is most concerned.

D. Oversight determines the overall objectives.

Answer (D) is correct.
Strategic direction, not oversight, determines overall objectives

Question: 18 Which of the following are duties of risk committees?

I. Identifying key risks
II. Connecting risks to risk management processes
III. Delegating risks to risk owners
IV. Considering whether tolerance levels delegated to risk owners are consistent with the organization’s risk appetite.

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

Answer (D) is correct.
A risk committee may be created that
• Identifies keys risks,
• Connects them to risk management processes,
• Delegates them to risk owners, and
• Considers whether tolerance levels delegated to risk owners are consistent with the organization’s risk appetite.

Question: 19 Which of the following statements about organizational culture is false?

A. The organizational culture sets the values, objectives, and strategies of the organization.
B. Governance does not largely depend on organizational culture for effectiveness.
C. Organizational culture defines roles and behaviors.

Answer (B) is correct.
Governance practices reflect the organization’s unique culture and largely depend on it for effectiveness.
D. The culture determines the degree of sensitivity to social responsibility.

Question: 19 Which of the following statements about organizational culture is false?

A. The organizational culture sets the values, objectives, and strategies of the organization.
B. Governance does not largely depend on organizational culture for effectiveness.
C. Organizational culture defines roles and behaviors.
D. The culture determines the degree of sensitivity to social responsibility.

Answer (B) is correct.
Governance practices reflect the organization’s unique culture and largely depend on it for effectiveness.

Question: 21 Which of the following is considered a potential stakeholder of an entity?

A. Shareholders.
B. Employees.
C. Suppliers.
D. All of the answers are correct.

Answer (D) is correct.
Stakeholders are persons or entities who are affected by the activities of the entity. Among others, these include shareholders, employees, suppliers, customers, neighbors of the entity’s facilities, and government regulators.

Question: 22 Attentive, Inc., has three managers: Albert, Bradley, and Chris.

- Albert is in charge of the accounting department. His duties involve the daily audit and producing the year-end financial statements.
- Bradley is in charge of production. His duties involve ensuring that production stays on schedule and that waste is minimized.
- Chris is in charge of support staff. His duties include ensuring that the workplace remains clean.

This practice is most closely related to which of the following governance principles?

A. Clear, enforced lines of responsibility and accountability.
Answer (A) is **correct**.
Since Albert, Bradley, and Chris are each responsible for different departments, this practice is most closely related to the governance principle of clear, enforced lines of responsibility.

**B.** An independent and objective board with sufficient expertise, experience, authority, and resources to conduct independent inquiries.

**C.** Reinforcement of an ethical culture, including employee feedback without fear of retaliation.

**D.** Clear definition and implementation of risk management policies and processes.

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**Question: 23**

<List A> applies to all organizational activities. Thus, its processes provide overall direction for <List B> activities. <List C> activities are in turn a key element of risk management.

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<th>List A</th>
<th>List B</th>
<th>List C</th>
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<tbody>
<tr>
<td>A. Governance</td>
<td>Risk management</td>
<td>Internal control</td>
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</table>

Answer (A) is **correct**.
Governance applies to all organizational activities. Thus, its processes provide overall direction for risk management activities. Internal control activities are in turn a key element of risk management. They implement the organization’s risk management strategies.

**B.** Risk management Governance Internal control

**C.** Internal control Risk management Governance

**D.** Risk management Internal control Governance

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**Question: 24**

Governance practices may use various legal forms, structures, strategies, and procedures. They ensure that the organization does all of the following except

**A.** Comply with society’s legal and regulatory rules.

**B.** Satisfy the generally accepted business norms, ethical principles, and expectations of society.

**C.** Provide an overall benefit to society and enhance the interests of the specific stakeholders in both the long- and short-term.

**D.** Earn a profit so that the organization’s stakeholders can earn an adequate return on their investment.

Answer (D) is **correct**.
Although governance practices ensure that the organization reports fully and truthfully to its stakeholders, including the public (to ensure accountability for its decisions, actions, and performances), they do not ensure that the organization will earn a profit.

The internal audit activity periodically assesses the elements of the ethical climate of the organization and its effectiveness in achieving legal and ethical compliance. Internal auditors therefore evaluate the effectiveness of which of the following?

I. Regular reviews of the processes that undermine the ethical culture
II. Confidential reporting of alleged misconduct
III. Personnel practices that encourage contributions by employees

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

Answer (D) is correct.

The internal audit activity periodically assesses the elements of the ethical climate of the organization and its effectiveness in achieving legal and ethical compliance. Internal auditors therefore evaluate the effectiveness of regular reviews of the processes that undermine the ethical culture, confidential reporting of alleged misconduct, and personnel practices that encourage contributions by employees.

Which of the following should be defined in the internal audit plan for an assessment of governance?

I. The nature of the work
II. The governance process
III. The nature of the assessments

A. I and II only.
B. II and III only.
C. I and III only.
D. I, II, and III.
The audit plan should include higher-risk governance processes. It should define (1) the nature of the work; (2) the governance processes; and (3) the nature of the assessments, e.g., consideration of specific risks, processes, or activities.

Question: 27  
The internal audit activity should contribute to the organization’s governance process by evaluating the processes through which

I. Ethics and values are promoted.
II. Effective organizational performance management and accountability are ensured.
III. Risk and control information is communicated.
IV. Activities of the external and internal auditors and management are coordinated.

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

Answer (D) is correct.

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

• Promoting appropriate ethics and values within the organization.
• Ensuring effective organizational performance management and accountability.
• Communicating risk and control information to appropriate areas of the organization.
• Coordinating the activities of and communicating information among the board, external and internal auditors, and management. (Perf. Std. 2110).

Question: 28  
A basic principle of governance is

A. Assessment of the governance process by an independent internal audit activity.

Answer (A) is correct.
The internal audit activity must assess and make appropriate recommendations for improving the governance process (Perf. Std. 2110).

B. Holding the board, senior management, and the internal audit activity accountable for its effectiveness.
C. Exclusive use of external auditors to provide assurance about the governance process.
D. Separation of the governance process from promoting an ethical culture in the organization.

Question: 29 Which aspect of corporate governance requires checks and balances?
A. Trusteeship.
B. Empowerment and control.

Answer (B) is correct. Empowerment and control mean that decision making should occur at appropriate levels of the organization, and freedom of management should be exercised within a framework of checks and balances.

C. Good corporate citizenship.
D. Transparency of public disclosures.

Question: 30 The design and practice of effective governance vary with

I. The size, complexity, and life-cycle maturity of the organization
II. The organization’s stakeholder structure
III. Legal and cultural requirements

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

Answer (D) is correct. The design and practice of effective governance vary with

- The size, complexity, and life-cycle maturity of the organization;
- The organization’s stakeholder structure; and
- Legal and cultural requirements.
Question: 31
Craig is the chief audit executive (CAE) of Marlin, Inc., and is in the process of planning an assessment of governance at Marlin. Which of the following should Craig consider in planning the assessment of governance?

A. Whether all major decisions have been authorized by senior management.
B. Whether he can rely on the assessment of internal control performed by external auditors.
C. Whether employees at all levels of the organization adhere to the code of ethics.
D. All of the answers are correct.

Answer (D) is correct.
The CAE should consider the following in planning assessments of governance:

• An audit should address controls in governance processes that are designed to prevent or detect events that could have a negative effect on the organization;
• Controls within governance processes are often significant in managing multiple risks; and,
• If other audits assess controls in governance processes, the auditor should consider relying on their results.

Hence, Craig should consider all of the answer choices when planning the assessment of governance.

Question: 32
Which of the following should an internal auditor consider when assessing governance?

I. Audits of specific processes
II. Governance issues arising from audits not focused on governance
III. The results of other assurance providers’ work
IV. Information such as adverse incidents indicating an opportunity to improve governance

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

Answer (D) is correct.
Assessments of governance are likely to be based on

Question: 33 Which of the following are roles of the internal audit activity in best practice governance activities?

- I. Report significant audit issues
- II. Support the board in enterprise-wide risk assessment
- III. Conduct follow-up and report on management’s response to external audit
- IV. Act as custodian of corporate assets in the pursuit of positive outcomes for stakeholders

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

Answer (C) is correct. The internal audit activity reports significant audit issues, supports the board in enterprise-wide risk assessment, and conducts follow-up and reports on management’s response to external audits as part of its best practice governance activities.

Question: 34 Which of the aspects of corporate governance requires accepting a higher cost of capital?

- A. Trusteeship.
- B. Empowerment and control.
- C. Good corporate citizenship.
- D. Transparency of disclosures.

Answer (D) is correct. Transparency of disclosures may involve accepting a higher cost of capital.
Question: 35  The design and implementation of governance processes are the responsibility of

<table>
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<th>The board</th>
<th>Management</th>
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<tr>
<td>A. Yes Yes</td>
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</table>

Answer (A) is **correct**. Governance is one of the three basic processes identified in the Definition of Internal Auditing. The design and implementation of governance processes are the responsibility of the board and management.

| B. Yes No |
| C. No Yes |
| D. No No |

Question: 36  Which of the following statements regarding governance is **false**?

| A. Governance has a range of definitions depending on the circumstances. |
| B. Governance models generally treat governance as a process or a system that is static. |

Answer (B) is **correct**. Governance models generally treat governance as a process or a system that is not static. The approach in the Standards emphasizes the board and its governance activities.

| C. Governance requirements vary by entity type and regulatory jurisdiction. |
| D. Governance does not exist as distinct processes and control structures. |

Question: 37  Which of the following correctly depicts a typical U.S. corporate governance structure from top to bottom?

| A. Board of directors, common shareholders, chief executive officer, employees. |
| B. Common shareholders, chief executive officer, board of directors, employees. |
| C. Common shareholders, board of directors, chief executive officer, employees. |

Answer (C) is **correct**. The common shareholders elect the board of directors, who appoint the chief executive officer, who hires the employees.

| D. Chief executive officer, common shareholders, board of directors, employees. |
Question: 38  Which of the following is most likely to result from an organization’s voluntary disclosure of a violation of laws to a regulatory body?

A. Harsher penalties due to the intentional nature of the violation.
B. Harsher penalties due to the reduced cost incurred by the regulatory body.
C. Lesser penalties due to incentives for voluntary compliance and disclosure.
D. No difference in penalties because an infraction of the law requires penalties.

Answer (C) is correct. Many regulatory bodies have systems that allow voluntary disclosure of infractions, often reducing or eliminating the associated penalties.

Question: 39  Which of the following is not a benefit of implementing ISO 14000?

A. Increased cost of waste management.

Answer (A) is correct. Using ISO 14000 can (1) decrease, not increase, the cost of waste management; (2) provide savings in consumption of energy and materials; (3) lower distribution costs; and (4) improve corporate image among regulators, customers, and the public.

B. Savings in consumption of energy.
C. Lower distribution costs.
D. Improved corporate image.

Question: 40  Internal auditors perform risk assessment audits to identify environmental and social risks. When the safeguards against these risks become legally mandated, which of the following is added to the internal audit activity’s duties?

A. No additional tasks are required because the internal audit activity is already engaged in determining the risk level.
B. Identifying environmental and social risks and responses for each risk.
C. Performing risk assessments by using risk management techniques.
D. Performing compliance audits to assess whether the organization is complying with the legal mandates.
Compliance audits are undertaken by the internal audit activity to ensure that the organization is compliant with all legal requirements to which it is subject.

**Question: 41**

Which of the following is true regarding ISO 14000?

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<tbody>
<tr>
<td>A.</td>
<td>It is a set of criteria established by the International Organization for Standardization for a quality assurance program.</td>
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<td>B.</td>
<td>It details certain requirements for environmental performance, such as efficient uses of resources and reductions of waste.</td>
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<tr>
<td>C.</td>
<td>It often results in higher costs in processes but is compensated for by an improved public image.</td>
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<tr>
<td>D.</td>
<td>None of the answers are correct.</td>
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Answer (D) is correct.

ISO 14000 is a set of criteria established by the International Organization for Standardization for an environmental management system. This system is not required but provides standards for implementing and maintaining environmental management systems. Additionally, such systems provide lower costs and improve corporate image.

**Question: 42**

Tabloid Tummytux provides cosmetic surgery to high-profile, celebrity clients. As a result, the clients often require that Tabloid take extreme precautions not only with medical records but also with all of Tabloid's information. Which of the following risks are related to failures in Tabloid's privacy and access controls over the information?

I. Legal liability  
II. Losing future business  
III. Losing the ability to compete effectively  
IV. Losing the ability to continue as a going concern

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<td>A.</td>
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<td>B.</td>
<td>I and III only.</td>
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<td>C.</td>
<td>I, II, and III only.</td>
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<td>D.</td>
<td>I, II, III, and IV.</td>
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Answer (D) is correct.

All of these are potential risks surrounding the unintentional disclosure of information due to failures in.
privacy and access controls.

Question: 43 Which of the following failures in information protection is most likely to directly lead to an organization losing its ability to continue as a going concern?

A. A gym membership list is discovered by a rival gym.
B. A soft drink company discovers the secret recipe for a rival company’s product.
Answer (B) is correct.
Discovery of trade secrets, such as secret formulas, often threatens the company’s ability to continue as a going concern. At the very least, such a discovery impairs the company’s ability to compete effectively.
C. An airplane manufacturer discovers the supplier for its primary competitor.
D. A computer repair store discovers that many of its customers have used competitors in the past.

Question: 44 Which of the following is correct regarding information reliability and integrity?

A. Internal auditors continually assess reliability and integrity practices and recommend new or improved controls.
B. Internal auditors are only permitted to assess the effectiveness of preventative and detective measures and to determine whether the board has been informed.
C. The CAE is responsible for determining whether prompt notification is given to the appropriate parties about breaches in security and conditions that might represent a threat.
Answer (C) is correct.
The CAE is responsible for determining whether senior management, the board, and the internal audit activity will be promptly notified of any failures in the information reliability and integrity systems.
D. None of the answers are correct.

Question: 45 The purpose of the Occupational Safety and Health Administration (OSHA) is to

A. Develop safety standards, prevent injuries, and promote job safety.
B. Administer the Occupational Safety and Health Act of
1970.

Answer (B) is correct. OSHA is authorized to develop detailed health and safety standards and to enforce them under the Occupational Safety and Health Act of 1970. OSHA investigates complaints, conducts inspections, and has developed numerous procedures to encourage compliance.

C. Address changing attitudes about the treatment of employees in the workplace.

D. Provide employees with a workplace free from unrecognized hazards that are likely to cause death or serious physical harm.

**Question: 46**

Of the following, which is the most likely to fall under the direct duties of the Occupational Safety and Health Administration (OSHA)?

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<td>A. Standards regarding the procedures used for cleaning up biohazardous materials.</td>
<td>Answer (A) is correct. OSHA is responsible for developing detailed health and safety standards and for enforcing them under the Occupational Safety and Health Act of 1970. Under the act, employers are required to provide employees with a workplace free from unrecognized hazards.</td>
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<td>B. Company policies regarding incident reports.</td>
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<td>C. Environmental surveys regarding risks to nearby businesses.</td>
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<td>D. Providing the public with annual summaries of business compliance.</td>
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**Question: 47**

Which of the following businesses is likely to incur the smallest penalties for noncompliance with environmental regulations?

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<tr>
<td>A. Polly Polluter produces textiles in a manufacturing plant and disposes of the industrial waste in another state.</td>
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<td>B. Innocent Industrialist produces a part that is used in most modern manufacturing plants. Unbeknownst to Industrialist, this process releases a toxin into the air.</td>
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<td>C. Guilty Gerald was found to be in knowing violation of the Clean Water Act due to the fact he ignored anti-dumping laws.</td>
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<td>D. Truthful Terry just learned that one of his oil well operators was violating the Clean Water Act. Terry informed the Environmental Protection Agency of the violation and began mitigating and rectifying the situation.</td>
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Voluntary disclosure and correction of environmental violations may reduce or eliminate penalties related to noncompliance; therefore, Truthful Terry is likely to incur the smallest penalties for noncompliance with environmental regulations.

Question: 48
Which of the following businesses is most likely to be found in violation of the Occupational Safety and Health Act (OSHA)?

A. Lucky Larry has failed to fix the potholes in and remove construction equipment from his employees’ parking lot. Luckily, no one has gotten hurt.

Answer (A) is correct.
Since employers are required to provide employees with a workplace free from hazards that are likely to cause death or serious physical harm, Larry is most likely in violation of OSHA for failing to fix the potholes and remove the construction equipment.

B. Three of Doug’s employees were injured while on the job last year. Doug maintains meticulous records of those injuries and the safeguards surrounding the activities.

C. Rebecca posts semiannual summaries of job-related injuries on her company’s website so that past, current, and potential employees can see her history regarding job-related injuries.

D. Randall rarely receives reports of work-related injuries; however, when he does, he always reports them in accordance with OSHA.

Question: 49
According to PA 2130.A1-1, which of the following is determined by the chief audit executive (CAE)?

I. Whether the internal audit activity has competent audit resources for evaluating internal and external risks to information reliability and integrity

II. Whether senior management, the board, and the internal audit activity will be promptly notified about breaches and conditions that might represent a threat

III. Whether the board has been appropriately informed

A. I and II only.

Answer (A) is correct.
According to PA 2130.A1-1, the CAE both determines whether the internal audit activity has competent audit resources for evaluating internal and external risks to information reliability and integrity and whether senior management, the board, and the internal audit activity will be promptly notified about breaches and conditions that might represent a threat.

**Question: 50**
Which of the following best describes the concept of corporate social responsibility (CSR)?

- **A.** A corporation’s purpose to serve only the interests of shareholders.
- **B.** A well-defined codification of corporate responsibilities as determined by a panel of professional organizations.
- **C.** A developing concept according to which a corporation has duties to parties other than society.
- **D.** A corporation’s duties to serve the interests of groups other than shareholders.

The correct answer is **D.**

According to CSR, a corporation has duties not only to its shareholders but also to other groups beyond what the law requires. These include customers and society.

**Question: 51**
Examples of CSR include all of the following except

- **A.** A pharmaceutical company that produces potentially addictive pain medication donates to addiction treatment facilities.
- **B.** A tobacco company donates money to stop-smoking initiatives as a result of the settlement to a lawsuit.
- **C.** A professional services firm pays its employees a bonus each year for providing services as volunteers to local not-for-profit organizations.
- **D.** A delivery company uses its distribution network to deliver supplies for free to areas affected by natural disasters.

The correct answer is **B.**

The donation is not an example of CSR because it is not voluntary. Socially responsible actions that are required in response to corporate misdeeds or in response to a lawsuit are more akin to punishment than to CSR.
**Question: 52** Which of the following statements is correct regarding CSR?

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<tr>
<td>A.</td>
<td>Profitable actions for an organization cannot be considered CSR because this would reflect priority being given to the needs of shareholders.</td>
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<td>B.</td>
<td>CSR often results in high turnover of employees due to the inconsistent nature of the corporate profits.</td>
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<tr>
<td>C.</td>
<td>The perception of profitability related to CSR can have a positive effect on the organization’s image.</td>
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<tr>
<td>D.</td>
<td>Charity as a form of advertising risks damaging the corporate image.</td>
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Answer (D) is **correct**.

CSR tends to be beneficial to an organization if it is perceived to have good motives. If these intentions are questionable, any positive effect of the charitable act may be outweighed by the perception that its motives are selfish.

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**Question: 53** Which of the following stakeholders have needs that must be considered when determining the effects of a corporate social responsibility (CSR) program?

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<tbody>
<tr>
<td>I.</td>
<td>Shareholders</td>
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<td>II.</td>
<td>Employees</td>
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<tr>
<td>III.</td>
<td>Competitors</td>
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<td>IV.</td>
<td>Society</td>
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<td>A.</td>
<td>I only.</td>
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<td>B.</td>
<td>IV only.</td>
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<td>C.</td>
<td>I and III only.</td>
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<tr>
<td>D.</td>
<td>I, II, and IV only.</td>
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Answer (D) is **correct**.

There are many stakeholders of an organization whose needs must be balanced when developing a CSR program. Shareholders, employees, and the society must be considered, among others. Competitors’ needs are not a factor in a CSR decision.

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**Question: 54** Which of the following provides guidance on how businesses and organizations can operate in a socially responsible way?

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<td>A.</td>
<td>ISO 14000.</td>
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<td>B.</td>
<td>ISO 26000.</td>
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Answer (B) is **correct**.
ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way, which means acting in an ethical and transparent way that contributes to the health and welfare of society.

C. The Occupational Safety and Health Act of 1970.

Question: 55 Which of the following is the most likely outcome of reporting the results of a CSR audit that conclusively determined that the company is compliant with their plan of action?

| A. | Distributing information to employees regarding ways they can improve their performance in future periods. |
| B. | Distributing information to shareholders regarding the amount of forgone profit the activities represented. |
| C. | Informing the public of the accomplishments of the organization, which may improve brand image and serve as a form of advertising. |

Answer (C) is correct.

One of the benefits of CSR programs is the improvement of brand image and the advertising that an organization can receive as a result of their service. However, it is important that the company maintain an altruistic motivation for these programs and that the benefits are a result, not a motivation, for CSR programs.

D. None of the answers are correct.

Question: 56 Which of the following can a CSR audit help to facilitate?

| A. | An understanding of an organization’s goals in regard to CSR. |
| B. | An understanding of an organization’s practices, policies, and culture in regard to CSR. |
| C. | An understanding of specific internal decision-making processes in regard to CSR. |
| D. | All of the answers are correct. |

Answer (D) is correct.

All of the statements listed are correct. A CSR audit may help to facilitate a better understanding of the organization’s goals, practices, policies, culture, and internal decision-making processes surrounding CSR. Additionally, the level of organizational compliance with the practices, policies, and culture may be obtained.
**Question: 57**  
Which of the following actions by Businessman Bart would probably not be considered an action in accordance with corporate social responsibility (CSR)?

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<td><strong>A.</strong></td>
<td>As part of expanding operations to another part of the globe, Bart builds schools and parks in the same area that they build manufacturing plants.</td>
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<tr>
<td><strong>B.</strong></td>
<td>To encourage green manufacturing, Bart sponsored a competition among engineering colleges to develop a cleaner way of storing industrial waste.</td>
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| **C.** | After learning that runoff from one of his factories polluted a lake, the city council suggested that Bart organize a clean-up.  

**Answer (C) is correct.**  
Since Bart is only organizing a clean-up due to the fact that runoff from one of his factories polluted a lake, this action is more akin to punishment than CSR. |
| **D.** | In order to fight obesity, Bart encourages and rewards his employees for participating in company-wide events such as bike rides and marathons. |

**Question: 58**  
Although corporate social responsibility (CSR) involves the incurrence of certain costs, in what ways can CSR also produce benefits?

- I. Positive public perception on a local, national, and international level  
- II. Retention of workers  
- III. Charity as a form of advertising  
- IV. Deductibility of charitable donations  

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<td><strong>A.</strong></td>
<td>I and III only.</td>
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<tr>
<td><strong>B.</strong></td>
<td>II and IV only.</td>
</tr>
<tr>
<td><strong>C.</strong></td>
<td>II, III, and IV only.</td>
</tr>
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</table>
| **D.** | I, II, III, and IV.  

**Answer (D) is correct.**  
CSR can be profitable. Serving the community involves certain costs; however, the benefits of CSR may exceed the costs. Examples of the benefits are  
- Positive public perception on a local, national, and international level;  
- Retention of workers;  
- Charity as a form of advertising (brand building); and
 Question: 59
Which of the following is not a relevant risk that should be identified in a corporate social responsibility (CSR) audit?

A. The effectiveness of implementation of large CSR projects.
B. Deductibility of charitable donations.
C. The reliability of performance measurements.
D. Risks associated with regulatory bodies.

Answer (B) is correct.
The deductibility of charitable donations is a benefit of CSR, not a relevant risk.

Question: 60
According to PA 2130.A1-1, which of the following is determined by the internal auditors?

I. Whether senior management and the board clearly understand that management is responsible for all critical information regardless of its form
II. Whether the internal audit activity has competent audit resources for evaluating internal and external risks to information reliability and integrity
III. Whether the board has been appropriately informed of threats, incidents, vulnerabilities exploited, and corrective measures

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

Answer (B) is correct.
According to PA 2130.A1-1, information reliability and integrity includes accuracy, completeness, and security. The internal audit activity determines whether senior management and the board clearly understand that management is responsible for all critical information regardless of its form. Internal auditors also determine whether the board has been appropriately informed of threats, incidents, vulnerabilities exploited, and corrective measures.