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Essentials of Internal Auditing

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QUESTION NO: 1

An internal auditor was assigned to work in the procurement department for six months to gam m-depth knowledge about the procurement process. Which of the following personnel development practices was applied in this situation?

A. Cosourcing

B. Inbound rotation

C. Guest auditor

D. Outbound rotation

ANSWER: D

Explanation:

Outbound rotation is the applicable personnel development practice because it temporarily places an internal audit staff member into an operational area outside the internal audit activity. The assignment gives the auditor direct, practical exposure to procurement activities, workflows, systems, terminology, risks, and control practices. This broader business knowledge can improve the auditor's professional competence and help the internal audit activity better understand the organization's operations when planning and performing future assurance or advisory work.

The Global Internal Audit Standards require internal auditors to maintain and develop the competencies needed to perform their responsibilities, while requiring the chief audit executive to support continuing professional development. A structured temporary assignment such as this is a practical development method for building operational and industry knowledge. The arrangement should also be managed with appropriate safeguards before the auditor later audits the area, because the Standards require auditors to preserve objectivity and avoid auditing activities for which they had recent operational responsibility. See the IIA's Global Internal Audit Standards, particularly the principles addressing competency, professional development, and objectivity, and the IIA's practice guides for implementation guidance.

QUESTION NO: 2

Which of the following statements is true regarding corporate social responsibility (CSR)?

A. Many of the areas explored by CSR are normally included in an audit universe or annual audit plan,

B. Despite significant corporate resources spent on CSR reporting, investors generally do not rely on CSR information.

C. Unlike many other areas of reporting responsibilities impacting stakeholders, CSR is largely voluntary.

D. Typically, operating management does not have a major role to play based on the public nature of reporting

ANSWER: C

Explanation:

Unlike many other areas of reporting responsibilities impacting stakeholders, CSR is largely voluntary. Corporate social responsibility encompasses an organization's environmental, social, ethical, and community-related commitments, often communicated through sustainability or ESG reporting. Historically, these disclosures have not been subject to the same universally prescribed, statutory reporting framework that applies to core financial statements. Organizations therefore have considerable discretion in deciding which CSR objectives to pursue, which performance measures to disclose, and which reporting framework to use. For example, the Global Reporting Initiative provides widely used standards to help organizations report sustainability impacts, but using those standards is generally a voluntary choice rather than a universal legal requirement. This voluntary character does not mean CSR lacks governance importance: boards and management may establish CSR commitments in response to stakeholder expectations, strategic priorities, reputational considerations, investor needs, or contractual and regulatory obligations applicable in particular jurisdictions. Internal auditors can provide assurance or advisory services concerning the governance, risk management, controls, and reliability of information supporting those commitments. The IIA recognizes sustainability as an important area in which internal audit can help organizations assess and manage risks and opportunities. See the Global Reporting Initiative Standards and the IIA's supplemental guidance resources.

QUESTION NO: 3

To promote a positive image within an organization, a chief audit executive (CAE) adjusted the audit plan to focus on assurance engagements that highlighted potential costs to be saved. Negative observations were to be omitted from engagement final communications. Which action taken by the CAE would be considered a violation of the Standards?

I. The focus of the audit function was changed without modifying the audit charter or notifying the audit committee.

II. Negative observations were omitted from the engagement final communications.

III. Cost savings and recommendations were highlighted in the engagement final communications.

A. II only

B. I and II only

C. I and III only

D. I, II, and III.

E. The focus of the audit function was changed without modifying the audit charter or notifying the audit committee.
II. Negative observations were omitted from the engagement final communications.
III. Cost savings and recommendations were highlighted in the engagement final communications.

ANSWER: B

Explanation:

I and II only is correct. The internal audit charter formally establishes the internal audit activity's purpose, commitment to the Global Internal Audit Standards, mandate, organizational position, reporting relationships, and scope of services. A material change in the activity's focus or scope should therefore be reflected in the charter and communicated to the board or audit committee, which has responsibility for approving the charter and overseeing the internal audit activity. This preserves appropriate governance, clarity of mandate, and organizational independence.

Further, final engagement communications must faithfully communicate engagement results. The CAE and internal auditors have a professional obligation to report significant observations, conclusions, and relevant limitations objectively and completely. Deliberately excluding negative observations to create a favorable image compromises the integrity and completeness of reporting and prevents management and the board from receiving the information needed to address risk and improve controls. Highlighting identified cost savings and recommendations is consistent with internal audit's value-adding role, provided that communications remain balanced, accurate, objective, and complete.

See the IIA's Global Internal Audit Standards, particularly the requirements concerning the internal audit mandate and communication of engagement results, and the IIA's Standards resources.

QUESTION NO: 4

An internal auditor notes that employees are able to download files from the internet. According to IIA guidance, which of the following strategies would best protect the organization from the risk of copyright infringement and licensing violations resulting from this practice?

A. Apply antivirus and patch management software.

B. Utilize dedicated and encrypted network connections.

C. Install a software inventory management application.

D. Utilize secure socket layer encryption.

ANSWER: C

Explanation:

Installing a software inventory management application is the most appropriate strategy because it provides an organization with visibility over software installed on its devices, including software that employees may download independently from the internet. A reliable inventory enables management to identify unauthorized, unapproved, unlicensed, or excessive installations and to compare deployed software with purchased license entitlements. This supports periodic compliance reviews, remediation of identified licensing gaps, and enforcement of approved-software policies. It also creates useful evidence for governance and audit purposes by establishing an accurate record of software assets and their licensing status. Effective software asset management is therefore a direct preventive and detective control for the stated risk: it helps ensure that downloaded software is properly authorized and used within applicable license terms, reducing exposure to copyright claims, contractual penalties, and reputational damage. The IIA's Global Internal Audit Standards emphasize evaluating whether governance, risk management, and control processes are appropriately designed and operating effectively; maintaining a software inventory is a concrete control that addresses this technology-related compliance risk. See the IIA Global Internal Audit Standards and the ISO/IEC 19770-1 software asset management standard.

QUESTION NO: 5

According to IIA guidance, which of the following is an area in which the internal auditor should be proficient?

A. Management principles.

B. Computerized information systems.

C. Internal audit standards, procedures, and techniques.

D. Fundamentals of accounting, economics, and finance.

ANSWER: C

Explanation:

Internal audit standards, procedures, and techniques. is correct because proficiency is the level of competence an internal auditor needs to apply the internal audit profession's requirements effectively in practice. This includes understanding and using the applicable professional standards, planning and performing engagements, evaluating evidence, documenting work, communicating results, and applying appropriate audit methods and techniques. Proficiency enables the auditor to perform assigned responsibilities with due professional care and to produce work that is consistent with the internal audit activity's mandate and quality expectations.

The IIA's competency requirements emphasize that internal auditors must possess or obtain the knowledge, skills, and abilities necessary to carry out their responsibilities. The current Global Internal Audit Standards require internal auditors to develop and apply competencies relevant to their roles and engagements. In particular, competence in internal auditing itself—including its standards, methodologies, and techniques—is fundamental rather than merely contextual business knowledge. See the IIA's Global Internal Audit Standards, especially the competency requirements under Principle 3, and the IIA's Standards resource page.

QUESTION NO: 6

According to IIA guidance, which of the following activities would typically be examined when using the maturity model approach for assessing an organization's risk management program?

A. Monitor and review

B. Performance measurement.

C. Setting the context.

D. Communication.

ANSWER: A

Explanation:

Monitor and review is correct because a risk management maturity assessment considers whether the organization has established, repeatable practices for overseeing risks and for evaluating whether risk responses remain appropriate as conditions change. Monitoring provides ongoing visibility into changes in risk exposure, control performance, emerging risks, and the progress of risk-treatment actions. Review provides a periodic, more deliberate assessment of the continued suitability and effectiveness of the risk management framework, processes, and reporting. At higher maturity levels, these activities are not merely performed; they are documented, consistently applied across the organization, supported by reliable information, and used to drive continual improvement. This focus aligns with the internal audit activity's responsibility to evaluate the effectiveness of risk management processes and to identify opportunities for improvement. The IIA's Global Internal Audit Standards describe the need for internal audit to assess governance, risk management, and control processes, including how management identifies, assesses, and responds to risk. Monitoring and review are also core, ongoing elements of a sound risk management framework. See the IIA Global Internal Audit Standards and ISO 31000 risk-management guidance.

QUESTION NO: 7

According to IIA guidance, which of the following best demonstrates how the chief audit executive may ensure that due professional care is applied?

A. Establish policies and procedures concerning the engagement process

B. Develop a strategy for recruiting assigning, and training staff

C. Outsource complex engagements to an external service provider

D. Base the auditor evaluation process on the number of observations

ANSWER: A

Explanation:

Establish policies and procedures concerning the engagement process is the best demonstration because the chief audit executive is responsible for directing the internal audit activity so that engagements are performed consistently and in conformance with professional requirements. A documented engagement methodology gives internal auditors practical direction for planning, assessing risks, defining objectives and scope, performing and documenting work, communicating results, and obtaining appropriate supervision or review. These process expectations help ensure that auditors apply the care, diligence, and professional judgment appropriate to the nature, complexity, and significance of each engagement.

Due professional care does not require infallibility; rather, it requires auditors to make suitably informed and thoughtful judgments and to perform work with the competence and attention expected of internal audit professionals. Engagement policies and procedures operationalize that expectation across the audit activity, rather than leaving its application solely to individual preference. They also provide a basis for consistent quality monitoring and continuous improvement. The IIA's Global Internal Audit Standards describe the chief audit executive's responsibility to establish methodologies that guide the internal audit function and support quality engagement performance. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 8

An organization is conducting a fraud risk assessment as part ol its risk management program. Which of the following steps is the organization most likely to perform first?

A. Identify relevant fraud risk factors.

B. Identify potential fraud schemes.

C. Identify existing controls for preventing and detecting fraud.

D. Identify red flags by conducting data analysis.

ANSWER: B

Explanation:

Identifying potential fraud schemes is the appropriate first step because a fraud risk assessment must begin by defining the ways fraud could plausibly be committed within the organization. The assessment team considers the organization's objectives, processes, transactions, systems, locations, assets, reporting responsibilities, and relationships with third parties to develop a sufficiently complete inventory of possible schemes. Examples may include asset misappropriation, fraudulent financial or operational reporting, corruption, procurement fraud, payroll fraud, or manipulation of customer accounts.

Defining these schemes establishes the unit of analysis for the rest of the assessment. For each plausible scheme, management can subsequently identify the relevant conditions and fraud risk factors, evaluate the likelihood and potential impact of occurrence, map preventive and detective controls, and determine whether the remaining exposure is within risk appetite. This approach helps ensure that controls and monitoring activities are evaluated against concrete fraud scenarios rather than assessed in the abstract. COSO's fraud risk management guidance describes fraud risk assessment as considering the ways fraud could occur and then assessing the likelihood and significance of those risks. The IIA also recognizes fraud risk as an important component of organizational risk management and internal audit planning. See the COSO Fraud Risk Management Guide and IIA Global Internal Audit Standards.

QUESTION NO: 9

The chief audit executive (CAE) has assigned an internal auditor to an upcoming engagement. Which of the following requirements would most likely indicate that the internal auditor was assigned to an assurance engagement?

A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.

B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.

C. The assigned internal auditor must not assume management responsibilities while performing the engagement

D. The assigned internal auditor must maintain objectivity while performing the engagement.

ANSWER: A

Explanation:

The assigned internal auditor must determine the objectives, scope, and techniques of the engagement. This most strongly indicates an assurance engagement because assurance work is an independent, objective assessment performed by internal auditors, who are responsible for establishing an engagement plan that specifies its objectives, scope, methodology, timing, and resources. The auditor's determination of these elements supports a systematic evaluation of the relevant governance, risk management, and control processes and enables the auditor to reach an independent conclusion.

In contrast, consulting work is advisory in nature and is generally performed at the request of an engagement client. For consulting engagements, the objectives and scope are agreed with the client rather than being determined solely by the internal auditor. This distinction preserves the client-focused and collaborative nature of consulting while allowing assurance engagements to retain the auditor's independent assessment role. The IIA's Global Internal Audit Standards describe assurance services as assessments that provide conclusions and identify engagement planning—including objectives and scope—as a core internal audit responsibility. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 10

What is the primary purpose of a risk management program?

A. Reduce risk to a tolerable level.

B. Reduce all risks regardless of costs.

C. Transfer all risks to external third parties.

D. Identify every significant risk to avoid it.

ANSWER: A

Explanation:

The primary purpose of a risk management program is to reduce risk to a tolerable level. Risk management is not intended to eliminate all uncertainty or every possible risk; rather, it helps an organization identify, assess, prioritize, and respond to risks in a manner consistent with its objectives and risk appetite. Management selects and implements appropriate responses—such as accepting, avoiding, sharing, or reducing a risk—to bring residual risk within the level the organization is willing and able to accept.

This focus supports the organization's ability to create, preserve, and realize value while pursuing its strategic, operational, reporting, and compliance objectives. The board and senior management establish the organization's risk appetite and tolerance, and management designs risk responses accordingly. Internal auditing then provides independent assurance and advice regarding the adequacy and effectiveness of governance, risk management, and control processes. The IIA's Global Internal Audit Standards recognize risk management as a process through which organizations identify and manage risks affecting objective achievement. COSO similarly describes enterprise risk management as integrating risk considerations with strategy-setting and performance, rather than seeking absolute risk elimination. See the IIA Global Internal Audit Standards and COSO Enterprise Risk Management guidance.

QUESTION NO: 11

Which type of engagement requires that the client agrees with the techniques used by the internal audit activity?

A. A performance audit.

B. A sensitive fraud investigation.

C. A compliance audit

D. A consulting service.

ANSWER: D

Explanation:

A consulting service. is correct because consulting engagements are advisory activities performed at the request of a client, and their nature and scope are subject to agreement with that client. This collaborative arrangement distinguishes consulting work from assurance work: the internal audit activity and the engagement client establish a mutual understanding of the engagement's objectives, scope, responsibilities, expected deliverables, and the approach to be used. Accordingly, techniques used during the work should be appropriate to the agreed purpose and understood by the client, while internal audit retains the professional competence, objectivity, and due professional care necessary to perform the work. The Global Internal Audit Standards describe advisory services as including activities such as advice, facilitation, training, and other client-requested services, and require internal audit to communicate and agree relevant engagement expectations. This agreement helps ensure that the work addresses the client's intended need without causing internal audit to assume management responsibility. See The IIA's Global Internal Audit Standards and its 2024 Standards resources.

QUESTION NO: 12

According to the Standards, in today's technology and business environments, how much computer and information systems-related knowledge and skills must an internal auditor have to be effective in fulfilling his job responsibilities?

A. Auditors must have an IT specialty in at least one of their organization's key information technology systems.

B. Auditors must be proficient in data analysis and computer assisted audit techniques for their organization.

C. Auditors must understand their organization's integrated test facilities and generalized audit software.

D. Auditors must understand their organization's IT governance, risk, and control processes.

ANSWER: D

Explanation:

Auditors must understand their organization's IT governance, risk, and control processes. Technology is integral to how organizations pursue objectives, process transactions, safeguard information, comply with requirements, and make decisions. Therefore, an internal auditor needs sufficient technology-related competence to recognize relevant risks and controls, assess whether governance arrangements support effective oversight, and determine how technology affects the engagement's objectives, scope, and testing approach. This is a practical, risk-based expectation: the auditor's knowledge must be adequate to perform assigned responsibilities effectively and to identify when specialized expertise is needed. The Global Internal Audit Standards require internal auditors to possess or obtain the competencies necessary to perform their responsibilities, while the chief audit executive ensures that the internal audit function collectively has the required competencies. Understanding the organization's technology governance, risk, and control processes provides the essential foundation for this work because it connects technology knowledge directly to assurance over organizational objectives. See the IIA's Global Internal Audit Standards and its Global Technology Audit Guides.

QUESTION NO: 13

In order to effectively handle conflict between audit team members, an audit team leader should:

A. Avoid addressing the conflict until the leader is sure that there is a problem.

B. Be assertive and keep the team members focused on a resolution.

C. Ask one of the team members to resolve the issue by being more conciliatory.

D. Transfer one of the team members to another assignment.

ANSWER: B

Explanation:

Be assertive and keep the team members focused on a resolution. This approach reflects effective internal audit leadership because conflict should be addressed constructively, promptly, and impartially in a way that protects both working relationships and engagement objectives. Assertiveness does not mean being aggressive or imposing a preferred outcome. Rather, the team leader clearly acknowledges the issue, facilitates respectful discussion, establishes expectations for professional conduct, and guides the parties toward a practical resolution. Keeping attention on resolution helps move the discussion away from personal positions and toward the facts, engagement responsibilities, shared audit objectives, and mutually acceptable actions. This is particularly important in internal audit engagements, where team members must collaborate, exercise professional judgment, and communicate candidly to produce reliable work. The IIA's Global Internal Audit Standards emphasize that the chief audit executive and internal audit leaders should support effective communication, collaboration, and a positive professional environment. Addressing team conflict in a fair and solution-oriented manner supports those expectations and contributes to audit quality. See the IIA's Global Internal Audit Standards and its guidance on practice guides.

QUESTION NO: 14

A technology company recently hired an entry-level internal auditor. To achieve conformance with the Standards, which of the following must the newly hired internal auditor possess?

A. An understanding of fraud and fraud risk.

B. IT audit expertise.

C. Industry-specific knowledge

D. At least one audit-related certification

ANSWER: A

Explanation:

An understanding of fraud and fraud risk. is correct because fraud awareness is a baseline professional-competence requirement for internal auditors, including those at entry level. An internal auditor does not need to be a fraud-investigation specialist, but must have sufficient knowledge to recognize fraud risk indicators, consider how fraud could affect engagement objectives and risk assessments, and understand how the organization manages fraud risk. This competence enables the auditor to exercise due professional care when evaluating governance, risk management, and controls.

The IIA's former International Standards for the Professional Practice of Internal Auditing explicitly required internal auditors to possess sufficient knowledge to evaluate fraud risk and the manner in which it is managed by the organization. The current Global Internal Audit Standards likewise identify fraud as an area of knowledge that the internal audit function must collectively possess, while requiring individual internal auditors to develop and apply the competencies relevant to their assigned responsibilities. Consequently, a new auditor must enter the profession with, or promptly obtain through training and supervision, an understanding of fraud and fraud risk sufficient for their work. See the IIA's Global Internal Audit Standards and its mandatory guidance resources.

QUESTION NO: 15

According to IIA guidance, which of the following is the strongest indicator of deficiencies in the risk management process?

A. The periodic evaluation of risk ratings is primarily dependent on subjective assessments.

B. Separate evaluations of the risk management process were conducted, but the results were never integrated.

C. Management ' s primary objective is minimizing changes to the structure and operation of the risk management process.

D. Many aspects of the related enterprise risk management program are informal and undocumented.

ANSWER: D

Explanation:

"Many aspects of the related enterprise risk management program are informal and undocumented" is the strongest indicator because an effective risk management process must be sufficiently structured, consistently applied, and supported by reliable information. Documentation makes risk-management responsibilities, risk criteria, assessment methods, risk responses, monitoring activities, and reporting expectations clear and repeatable. When substantial elements are informal or undocumented, the organization cannot readily demonstrate that risks are identified and assessed consistently, that decisions are based on defined criteria, or that risk responses are monitored and communicated appropriately. This condition also limits management's ability to maintain the process when personnel or business circumstances change, and limits internal audit's ability to evaluate its design and effectiveness using objective evidence. The IIA's Global Internal Audit Standards emphasize that the board and management establish risk-management processes and that internal audit evaluates their adequacy and effectiveness. A documented, integrated framework provides the evidence needed for this evaluation and supports accountability across the organization. See The IIA Global Internal Audit Standards and The IIA Standards resources.

QUESTION NO: 16

A regional entertainment organization is in the process of developing a corporate social responsibility (CSR) policy. Management invites ideas from employees when developing the CSR policy. Which of the following is the most appropriate idea to include?

A. Management has overall responsibility for the effectiveness of governance, risk management, and internal control processes associated with CSR.

B. The board is responsible for ensuring that CSR objectives are established, risks are managed, performance is measured, and activities are appropriately monitored and reported.

C. Management is responsible for ensuring that the organization's CSR principles are communicated, understood, and integrated into decision-making processes.

D. Generally, CSR activities are limited to the management of the organization; thus, employees do not have a responsibility for ensuring the success of CSR objectives.

ANSWER: C

Explanation:

Management is responsible for ensuring that the organization's CSR principles are communicated, understood, and integrated into decision-making processes. A CSR policy has practical value only when its commitments are translated into daily operations, including decisions about customers, employees, suppliers, community impacts, ethical conduct, and environmental considerations. Management is positioned to establish the processes, accountability, training, communications, and performance expectations that make this integration possible. Communicating the principles clearly helps employees understand how CSR applies to their individual responsibilities; embedding those principles in decision-making ensures that CSR is not merely a public statement but an operational part of how the organization conducts business.

This approach also supports sound governance by aligning organizational behavior with stated values and stakeholder expectations. The IIA's Global Internal Audit Standards describe management's role in achieving organizational objectives and managing risks through appropriate processes and controls. CSR-related commitments create strategic, reputational, compliance, and operational considerations that management should incorporate into those processes. The IIA also recognizes that governance includes ethical culture, accountability, and oversight of sustainability-related matters. See the IIA Global Internal Audit Standards and the IIA's supplemental guidance resources.

QUESTION NO: 17

Which of the following statements is true regarding a key difference between assurance and consulting services provided by the internal audit activity?

A. When conducting a consulting engagement, the nature and scope of the engagement are determined by the internal audit activity.

B. Three parties are participants in assurance services, while consulting engagements generally involve two parties.

C. An assurance engagement has two participants, while consulting engagements generally involve three parties.

D. When conducting an assurance engagement, the engagement objectives, scope, and techniques are agreed with the area under review.

ANSWER: B

Explanation:

Three parties are participants in assurance services, while consulting engagements generally involve two parties. This reflects the fundamental service-model distinction in the Global Internal Audit Standards. In an assurance engagement, the internal auditor independently assesses a subject matter or condition. The three usual participants are the internal auditor, the process owner or other party responsible for the subject matter, and the intended users of the resulting assurance, such as senior management or the board. The auditor's independent evaluation is intended to provide those users with an objective conclusion or opinion regarding governance, risk management, or controls.

Consulting services, now commonly termed advisory services in the Global Internal Audit Standards, generally involve a direct working relationship between the internal auditor and the engagement client. The client seeks advice, facilitation, training, or other assistance, and the nature and scope of the work are agreed with that client. Although advisory work must continue to protect internal audit's objectivity and must not transfer management responsibility to the auditor, its defining relationship is ordinarily between those two parties rather than the three-party assurance model. See the IIA's Global Internal Audit Standards and its standards resources.

QUESTION NO: 18

During a procurement process audit the internal audit activity undertakes a fraud risk assessment and considers a range of possible fraud scenarios within the process. Which of the following scenarios constitutes a pressure to commit fraud?

A. An employee believes his poor compensation package justifies engaging in unethical behavior.

B. The head of the department is the only signatory to purchase orders issued to third party contractors.

C. Some employees strongly believe monetary gifts from vendors is a means of saving for life after employment.

D. One of the employees was found to have an obsession with expensive jewelry

ANSWER: D

Explanation:

One of the employees was found to have an obsession with expensive jewelry constitutes a potential pressure to commit fraud because it may indicate a costly personal lifestyle or financial desire that exceeds the employee's legitimate means. In fraud-risk assessment, pressure (also described as an incentive or motivation) is the personal financial need, lifestyle expectation, debt, addiction, or other perceived demand that can motivate an individual to seek improper funds or benefits. An unusually expensive interest is not proof that fraud has occurred, nor does it establish that a particular person will act dishonestly. It is, however, a relevant behavioral or lifestyle red flag that auditors may consider when identifying fraud scenarios and evaluating the likelihood of a motivation for procurement-related misconduct, such as accepting kickbacks or manipulating purchases. The assessment should document the risk objectively and corroborate it with process, control, and transactional evidence rather than relying on personal characteristics alone. COSO's fraud risk-management guidance describes incentives or pressures as a core condition that can contribute to fraud and emphasizes incorporating such conditions into a structured fraud risk assessment. See the COSO Guidance on Internal Control and The IIA's Practice Guides for fraud-risk and internal-audit guidance.

QUESTION NO: 19

In a small company with a small budget, the board and senior management asked the chief audit executive (CAE) to develop specific controls prompted by a new regulatory requirement affecting a specific process. The CAE was also directed to report functionally to senior management. An audit engagement on this process was already set in the internal audit plan. Which of the following represents an impairment to the internal audit activity's independence?

A. The development of controls by the CAE.

B. The audit engagement regarding this process.

C. The functional reporting of the CAE to senior management.

D. The small budget.

ANSWER: C

Explanation:

The functional reporting of the CAE to senior management is an impairment because organizational independence requires the chief audit executive to be accountable to the board, including through a functional reporting relationship. Functional reporting enables the board to approve the internal audit charter, plan, budget, appointment or removal of the CAE, and CAE performance evaluation; it also supports unrestricted communication about audit results, risks, and management's responses. If senior management instead holds the functional reporting role, the internal audit activity's ability to carry out its responsibilities free from management influence is compromised. Management may be the subject of assurance work, so it cannot provide the level of independent oversight expected of the board. Administrative interaction with senior management is normal and necessary for day-to-day operations, but it does not replace functional accountability to the board. The Global Internal Audit Standards require the CAE to establish and maintain an organizational reporting relationship that enables the internal audit function to fulfill its mandate independently, with the board providing appropriate oversight. See the IIA's Global Internal Audit Standards and its guidance on organizational independence.

QUESTION NO: 20

The primary reason that a bank would maintain a separate compliance function is to:

A. Better manage perceived high risks.

B. Strengthen controls over the bank's investments.

C. Ensure the independence of line and senior management.

D. Better respond to shareholder expectations.

ANSWER: A

Explanation:

Better manage perceived high risks is correct because a dedicated compliance function enables a bank to identify, assess, advise on, monitor, and report compliance risk in a coordinated and sufficiently independent manner. For a bank, compliance risk includes the risk of legal or regulatory sanctions, material financial loss, or reputational damage arising from failure to comply with applicable laws, regulations, rules, standards, and codes of conduct. These exposures can affect the entire organization and may arise across products, customer relationships, jurisdictions, and business processes. A separate function provides specialized regulatory expertise and a bank-wide view of such risks, while supporting senior management and the board with timely information about the effectiveness of compliance-risk management. Its role is therefore fundamentally risk focused: it helps the organization manage significant compliance-related exposures before they result in breaches or harm. The Basel Committee describes the compliance function as an independent function that identifies, assesses, advises on, monitors, and reports the bank's compliance risk. This is consistent with the IIA's Three Lines Model, under which second-line roles provide expertise, support, monitoring, and challenge for risk management. See the Basel Committee's Compliance and the compliance function in banks and the IIA's Three Lines Model.

QUESTION NO: 21

The top three sales representatives for a company consistently include non-allowable charges on their expense reports. Line management is reluctant to deny reimbursement of the charges for fear of losing the sales representatives. This situation has the greatest negative impact on which of the following internal control components?

A. Monitoring.

B. Control environment.

C. Information and communication.

D. Control activities.

ANSWER: B

Explanation:

Control environment. is the correct answer because it establishes the organization's overall tone regarding integrity, ethical conduct, accountability, and adherence to policies. It is the foundation on which the other components of internal control operate. In this situation, management knows that employees are submitting non-allowable expenses but is unwilling to enforce the expense-reimbursement policy because of those employees' sales performance. That decision communicates that high performers may be exempt from established rules and that policy compliance is secondary to short-term business results.

Management's willingness to tolerate known misconduct weakens expectations for ethical behavior throughout the organization. Employees may reasonably conclude that standards are applied inconsistently, that violations will not have consequences when a person is considered valuable, and that managers will override controls for business convenience. These conditions directly impair the culture of integrity and discipline that management is responsible for creating and sustaining. COSO identifies the control environment as including integrity and ethical values, management's operating style, and the assignment of authority and responsibility. The IIA likewise emphasizes that an organization's governance and control culture depends on ethical leadership and accountability. See COSO's Internal Control guidance and The IIA's Global Internal Audit Standards.

QUESTION NO: 22

The board of a newly established organization was discussing the contents of the draft internal audit charter One board member suggested adding to the charter an obligation for the internal audit activity to develop controls in business procedures. The board member explained that the new organization needs professional-level developers, internal auditors

have the necessary skills and competencies, and the internal audit activity is well positioned to assume this responsibility. Which of the following would be a potential concern if the board memberâ€™s suggestion is adopted?

A. Due professional care.

B. Internal audit objectivity.

C. Risk management assurance.

D. Professional development.

ANSWER: B

Explanation:

Internal audit objectivity is the key concern. The internal audit activity is intended to provide independent, risk-based assurance, advice, insight, and foresight. Although internal auditors may provide consulting advice about control design, taking responsibility for developing controls in business procedures makes the activity part of management's control design and implementation process. This creates a self-review threat if internal audit subsequently assesses whether those controls are appropriately designed or operating effectively. Stakeholders could reasonably question whether auditors can make an unbiased assessment of controls they created, even where individual auditors act in good faith and have the technical competence to develop them.

The board and chief audit executive should preserve organizational arrangements that support auditors' impartial judgment, including clear responsibility for management to design, implement, and operate controls. Where advisory services are provided, the scope and safeguards should be structured so internal audit does not assume management responsibility. The IIA's Global Internal Audit Standards emphasize that internal auditors must maintain objectivity and avoid circumstances that impair, or appear to impair, unbiased professional judgment. See the IIA Global Internal Audit Standards and the IIA's guidance on practice guides.

QUESTION NO: 23

Which of the following would provide the best evidence of errors in the quantities of items received from suppliers?

A. Suppliers' reports of over shipments.

B. Warehouse receiving logs.

C. Purchase requisitions and purchase orders.

D. Observation and inspection of inventory.

ANSWER: D

Explanation:

Observation and inspection of inventory. provides the strongest evidence because it enables the internal auditor to obtain direct evidence of the actual items and quantities on hand. By observing the receiving process, physically inspecting goods, and independently counting or test-counting inventory, the auditor can determine whether recorded receipt quantities reasonably reflect the goods actually delivered. This evidence is especially persuasive when the auditor traces observed quantities to receiving documentation and investigates any differences identified.

The Global Internal Audit Standards require internal auditors to base conclusions on information that is relevant, reliable, and sufficient. Evidence obtained through the auditor's own observation and physical inspection is generally highly reliable because it is gathered directly rather than relying solely on records created by the organization or on assertions from an external party. Physical verification also allows the auditor to assess item condition, identification, segregation, and whether controls over receiving are operating as intended. These procedures provide a sound basis for identifying quantity discrepancies and supporting a conclusion about errors in supplier receipts. See the IIA's Global Internal Audit Standards and its Global Practice Guides.

QUESTION NO: 24

Which of the following would most likely be classified as a consulting engagement?

A. Examining the internal control effectiveness of the marketing department

B. Assessing the adequacy of the IT system's business process design

C. Facilitating a self assessment of the organizations business risk and control identification

D. Reviewing the application controls in the human resources system

ANSWER: C

Explanation:

Facilitating a self assessment of the organizations business risk and control identification is a consulting engagement because the internal auditor is working collaboratively with management or other stakeholders to provide advice, facilitation, and insight. In this type of work, the auditor may guide participants through identifying objectives, risks, existing controls, and potential control improvements, while management retains responsibility for evaluating risks, making decisions, and implementing any actions. The purpose is to add value and improve governance, risk management, and control processes through an advisory activity whose scope is generally agreed with the client.

This approach is consistent with The IIA’s definition of consulting services as advisory and related client-service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization’s governance, risk management, and control processes. A facilitated risk-and-control self-assessment is a common example because it helps the organization build its own understanding and ownership of risk and controls without transferring management responsibility to internal audit. The engagement should be planned and performed with appropriate safeguards for auditor objectivity and independence. See The IIA’s Global Internal Audit Standards and its International Professional Practices Framework.

QUESTION NO: 25

In its five years of existence, an internal audit activity conducted a single internal assessment of its quality assurance and improvement program (QAIP). The results of that assessment showed that the internal audit activity did not conform with the Standards. Prior to this, an external assessment of the internal audit activity ' s QAIP was conducted, which reported that the internal audit activity was in conformance with the Standards. Considering the two assessments, what would be the internal audit activity ' s current state of conformance with the Standards?

A. Conformance with the Standards.

B. Nonconformance with the Standards

C. Unable to determine conformance with the Standards.

D. Partial conformance with the Standards

ANSWER: B

Explanation:

Nonconformance with the Standards is correct because the most recent quality assessment evidence identifies that the internal audit activity does not conform. A QAIP is intended to provide an ongoing evaluation of whether the internal audit activity conforms with applicable professional requirements and is operating effectively. Although the earlier external assessment found conformance at the time it was performed, that conclusion does not supersede a later internal assessment that identifies nonconformance. Conformance is not a permanent status; it must reflect the internal audit activity’s current practices and the results of its quality assessments.

Under the former International Standards for the Professional Practice of Internal Auditing, when nonconformance affects the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and its impact to senior management and the board. The current Global Internal Audit Standards likewise require the chief audit executive to maintain a QAIP and communicate relevant quality-assessment results, including significant conformance

issues and remediation plans. Therefore, the activity's current status is nonconformance unless and until corrective action and subsequent assessment provide support for a new conformance conclusion. See the IIA's Global Internal Audit Standards and its Quality Assurance resources.

QUESTION NO: 26

Which of the following would best preserve the organizational independence of the internal audit activity?

A. The internal audit charter is approved by the chief audit executive (CAE).

B. The CAE reports functionally to the CEO.

C. The CAE ' s internal audit plan is endorsed by the board.

D. The chief financial officer determines the appointment of the CAE.

ANSWER: C

Explanation:

The CAE ' s internal audit plan is endorsed by the board best preserves organizational independence because board-level oversight places a key aspect of internal audit's work outside the authority of the management team being audited. The internal audit plan establishes the engagements, priorities, resources, and timing for the activity's assurance and advisory work. When the board reviews and endorses this plan, it helps ensure that the work addresses significant governance, risk management, and control issues rather than being directed, restricted, or unduly influenced by executive management interests.

The IIA's Global Internal Audit Standards assign the board an essential role in protecting the internal audit function's independence. This includes approving the internal audit charter, the CAE's appointment and removal, and the internal audit plan, as well as ensuring the CAE has direct access to the board. Board approval or endorsement of the plan therefore provides meaningful functional oversight and supports the CAE's ability to set risk-based priorities objectively. See the IIA's Global Internal Audit Standards and its standards resources.

QUESTION NO: 27

Which of the following are components of the COSO enterprise risk management framework?

1. Objective setting.

2. External environment.

3. Data collection.

4. Control activities.

A. 1 and 3 only

B. 1 and 4 only

C. 2 and 3 only

D. 2 and 4 only

ANSWER: B

Explanation:

1 and 4 only is correct under COSO's Enterprise Risk Management—Integrated Framework. This question uses the framework's original eight-component model, in which objective setting and control activities are expressly identified as components. Objective setting requires management to establish objectives before identifying and assessing risks, ensuring

that objectives align with the organization's mission and risk appetite. It provides the context needed to identify events that may affect achievement of those objectives and to evaluate the related risks.

Control activities are the policies and procedures that help ensure risk responses are carried out. They may include approvals, authorizations, reconciliations, reviews of operating performance, segregation of duties, and information-technology controls. Their purpose is to help manage risk within the organization's established tolerance and support the achievement of objectives. COSO presents these components as interrelated elements of enterprise-wide risk management, rather than isolated compliance tasks. The framework is designed to support achievement of objectives across strategic, operations, reporting, and compliance categories. See COSO's Enterprise Risk Management—Integrated Framework and its enterprise risk management guidance.

QUESTION NO: 28

IT management requires all employees in the IT department to attend annual training on the department's mission values and key performance measures This activity is designed to prevent which of the following conditions?

A. Knowledge/skills gap

B. Monitoring gap

C. Accountability/reward failure

D. Communication failure

ANSWER: D

Explanation:

Communication failure is the condition this activity is designed to prevent. Annual training that addresses the IT department's mission, values, and key performance measures establishes a common understanding of organizational priorities and of how individual and team activities support them. It also gives management a structured, repeatable way to communicate expectations, performance objectives, and the behaviors that should guide decisions. Employees who understand the mission and performance measures can align their daily work, escalation decisions, service delivery, and improvement efforts with the department's intended outcomes. Requiring the training annually is important because priorities, measures, personnel, and operating circumstances may change; recurring communication helps ensure that the message remains current and consistently understood throughout the department. This supports effective governance by making objectives and expectations clear to those responsible for achieving them. The IIA's Global Internal Audit Standards emphasize the importance of clear communication in supporting governance, risk management, and control processes. Guidance on organizational performance management likewise recognizes that communicating goals and measures helps align employee actions with strategic objectives. See the IIA Global Internal Audit Standards and the U.S. Office of Personnel Management performance-management guidance.

QUESTION NO: 29

An internal auditor obtains spreadsheets created by the finance department of an organization. The internal auditor contacts a third party about the source data that was utilized to create the spreadsheets before going on to perform a ratio analysis and a comparison of budget versus actual data. What is the most likely reason that the internal auditor involved a third party before performing further analysis?

A. To determine if a later re-performance for testing mechanical accuracy would be possible.

B. To confirm that the spreadsheets could be used as a source of analytic data.

C. To determine what future usage limitations the spreadsheets might have.

D. To obtain a reliable verification about the accuracy of the source data.

ANSWER: D

Explanation:

To obtain a reliable verification about the accuracy of the source data. is correct because analytical procedures, including ratio analysis and comparisons of budgeted to actual results, are only as dependable as the data on which they are performed. Before relying on finance-created spreadsheets as audit evidence, the internal auditor should assess whether the underlying source data are accurate, complete, and sufficiently reliable for the intended engagement work. Obtaining corroboration from an independent third party strengthens the reliability of that underlying information, particularly where the third party is the original source or otherwise has direct knowledge of the data. This gives the auditor a sounder evidential basis for using the spreadsheets in subsequent analysis and for drawing conclusions from unusual relationships or variances identified. The IIA's Global Internal Audit Standards require internal auditors to obtain relevant, reliable, and sufficient information to support engagement results; reliability is enhanced when information is corroborated and obtained from independent sources. The auditor's contact with the third party is therefore directed at validating the accuracy of the source data before analytical work proceeds. See the IIA's Global Internal Audit Standards and its mandatory guidance resources.

QUESTION NO: 30

During a payroll audit, the internal auditor discovered that several individuals who have the same position classification as he are earning a significantly higher salary. The auditor noted the names and amounts of each, and he planned to prepare a request to the chief audit executive for a salary increase based on this information. Which of the following IIA Code of Ethics principles was violated in this scenario?

A. Competency.

B. Objectivity,

C. Integrity.

D. Confidentiality

ANSWER: D

Explanation:

Confidentiality is the applicable ethical principle because the auditor intends to use individual salary information obtained while performing an audit for a personal purpose. Payroll records, including employee names, job classifications, and compensation amounts, are sensitive information entrusted to the internal audit activity for a legitimate engagement purpose. Internal auditors must respect both the value and ownership of information they receive and must not use it for personal gain or in a manner contrary to law or detrimental to the organization's legitimate and ethical objectives. The issue is not merely that the auditor recorded the information; it is the planned use of audit-derived, nonpublic compensation data to support his own salary request. That is an improper personal use of confidential information accessed through professional duties. The IIA's former Code of Ethics expressly stated that internal auditors shall not use information for personal gain, while the current Global Internal Audit Standards continue to require appropriate protection and use of information obtained in the course of internal audit work. See The IIA Global Internal Audit Standards and The IIA International Professional Practices Framework.

QUESTION NO: 31

A staff auditor, nearly finished with an audit engagement, discovers that the director of marketing has a gambling habit. The gambling issue is not directly related to the existing engagement, and there is pressure to complete the current engagement. The auditor notes the problem and forwards the information to the chief audit executive, but performs no further follow-up.

Which of the following statements is true about the auditor's actions?

A. They are in violation of the IIA Code of Ethics because the auditor withheld meaningful information.

B. They are in violation of the Standards because the auditor did not properly follow up on a red flag that might indicate the existence of fraud.

C. They are in violation of neither the IIA Code of Ethics nor the Standards.

D. They are not in violation of the Standards but are in violation of the IIA Code of Ethics.

ANSWER: C

Explanation:

They are in violation of neither the IIA Code of Ethics nor the Standards. An internal auditor must exercise professional judgment in deciding whether information is relevant to the engagement objectives, scope, and assessed risks. Here, the gambling habit is not directly connected to the area being audited, and the auditor appropriately documented the matter and escalated it to the chief audit executive. This ensures that the information reaches the person responsible for determining whether it warrants separate assessment, consultation, or a future audit activity.

The ethical obligation to disclose material facts applies to facts that, if omitted, could distort the reporting of activities under review. Because the fact described does not affect the current engagement's subject matter or conclusions, it is not meaningful information that must be included in that engagement report. Likewise, due professional care requires auditors to consider fraud risk within the work being performed; it does not require an auditor to investigate every personal concern that has no apparent relationship to the engagement. The auditor's escalation preserves appropriate oversight without improperly expanding the engagement or delaying its completion. The IIA's professional requirements emphasize risk-based planning, professional judgment, and communication through appropriate channels. See the IIA Global Internal Audit Standards and the IIA mandatory guidance resources.

QUESTION NO: 32

The audit process used by the internal audit activity of a large wholesale clothing company does not include an engagement letter or project approval document. The most serious consequence of this deficiency in the process is that the:

A. Audit schedule may not be optimal from the engagement client's perspective.

B. Audit objectives may not be understood by management of the area being audited.

C. Audit resources may not be sufficient.

D. Audit plan priority may have changed.

ANSWER: B

Explanation:

Audit objectives may not be understood by management of the area being audited. An engagement letter or comparable project-approval document is a key mechanism for formally communicating and documenting the purpose of an engagement before fieldwork begins. It ordinarily establishes the engagement's objectives, scope, timing, responsibilities, expected communications, and the authority under which internal audit will perform its work. In particular, clear objectives allow the auditee's management to understand the business questions and risks the engagement is intended to address, identify the appropriate personnel and records, and engage constructively throughout the work.

This shared understanding is fundamental because engagement objectives direct audit procedures, evaluation criteria, and reporting. Without a formal document, management may reasonably have a different understanding of what internal audit is examining or why. That lack of alignment can impair cooperation, create disputes over the relevance of information requested or conclusions reached, and reduce the practical usefulness of engagement results. The IIA's Global Internal Audit Standards require internal auditors to establish and document engagement objectives and scope, and to communicate appropriately with relevant stakeholders. See The IIA Global Internal Audit Standards and the IIA's Standards resource page.

QUESTION NO: 33

An internal auditor is assessing the effectiveness of the organization ' s risk management practices. She checks to see whether risk management is an integral part of decision making and whether risk management is transparent, responsive to change, and addresses uncertainty. According to IIA guidance on risk management frameworks, which of the following approaches is the auditor most likely using?

A. Maturity model approach.

B. Process element approach.

C. Key principles approach.

D. Key performance indicators approach.

ANSWER: C

Explanation:

Key principles approach. is correct because the auditor is evaluating whether risk management exhibits broad, foundational characteristics of effective risk management rather than testing individual process steps or measuring performance metrics. The criteria described—being integral to decision-making, transparent, responsive to change, and explicitly addressing uncertainty—align with risk management principles commonly articulated in internationally recognized risk management frameworks. These principles help an organization determine whether its overall approach to managing risk is sound, integrated into governance and management activities, and capable of adapting as circumstances change.

For internal audit purposes, a principles-based assessment is especially useful when evaluating the design and overall effectiveness of a risk management framework. It enables the auditor to consider whether risk management is embedded throughout the organization and supports the achievement of objectives, consistent with the internal audit activity's role in evaluating and contributing to the improvement of risk management processes. The IIA's Global Internal Audit Standards require internal audit to evaluate the effectiveness of risk management processes, while ISO 31000 identifies integration, structured decision-making, uncertainty, inclusiveness, dynamism, and continual improvement as central risk-management principles. See The IIA Global Internal Audit Standards and ISO 31000 Risk Management.

QUESTION NO: 34

Which of the following lists the audit activities in the order in which they would generally be completed during a preliminary survey?

I. Write detailed audit procedures.

II. Identify client objectives, goals, and standards.

III. Identify risks and controls intended to prevent associated losses.

IV. Determine relevant engagement objectives.

A. II, I, IV, III.

B. II, III, IV, I.

C. III, IV, II, I.

D. II, IV, I, III.

E. I, II, III, IV.

ANSWER: B

Explanation:

II, III, IV, I. is the normal logical progression for a preliminary survey and engagement planning. Internal auditors first obtain an understanding of the area under review, including management's objectives, goals, performance expectations, and applicable standards. This context establishes what the activity is intended to achieve and the criteria against which it can be assessed. The auditor then identifies the risks that could prevent achievement of those objectives, together with the controls designed to manage the risks and prevent or reduce potential losses. Using that risk-and-control understanding, the auditor determines focused engagement objectives that define what the engagement must evaluate. Only after the objectives and scope are sufficiently clear can detailed audit procedures be designed. Procedures should directly support the engagement objectives and produce adequate, relevant, and reliable evidence regarding the most significant risks and controls. This sequence is consistent with the IIA's requirement to develop engagement objectives based on a preliminary assessment of relevant risks and then create a work program that achieves those objectives. See the IIA's Global Internal Audit Standards, particularly the engagement planning requirements, and the IIA's Standards resources.

QUESTION NO: 35

A company has implemented a new automated system that rejects purchase orders exceeding approved budget limits. Which of the following best describes this control?

A. Corrective control.

B. Detective control.

C. Preventive control.

D. Compensating control.

ANSWER: C

Explanation:

The automated rejection is a preventive control because it stops an unauthorized or excessive purchase order before it is processed. Preventive controls are designed to avoid the occurrence of undesirable events, errors, or irregularities. In this case, the system compares the purchase order to an established budget limit and blocks the transaction when the criterion is not met.

A report identifying purchase orders that exceeded budgets after processing would be detective, while an adjustment to correct an over-budget purchase would be corrective. The automated rejection directly prevents the transaction from proceeding. See COSO's Internal Control—Integrated Framework resources.

QUESTION NO: 36

According to IIA guidance, which of the following actions by the chief audit executive (CAE) best demonstrates the organizational independence of the internal audit activity?

A. The CAE seeks senior management approval of the internal audit charter

B. The CAE obtains senior management's approval to hire staff

C. The CAE reports significant issues to the organization's CEO

D. The CAE provides the board with an annual budget for approval

ANSWER: D

Explanation:

The CAE provides the board with an annual budget for approval best demonstrates organizational independence because it establishes the board's direct functional oversight of the internal audit activity's resources. Organizational independence depends on the CAE being positioned so that internal audit can carry out its responsibilities without management interference. A critical safeguard is the board's involvement in approving the internal audit activity's budget and resource requirements. This authority helps ensure that management cannot inappropriately constrain audit coverage, staffing, technology, training, or other resources needed to execute the approved audit plan. It also gives the CAE a direct channel to communicate whether available funding is sufficient to address the organization's significant risks and fulfill the internal audit mandate. The IIA's Global Internal Audit Standards identify board approval of the internal audit budget and resource plan as an essential element supporting the CAE's organizational independence and the activity's ability to perform its work objectively. This board-level approval is therefore a concrete governance mechanism, rather than merely an operational reporting practice. See the IIA's Global Internal Audit Standards, particularly the requirements addressing organizational independence and board responsibilities.

QUESTION NO: 37

Which of the following is an example of a risk avoidance strategy?

A. Hedging against exchange rate variations.

B. Limiting access to an organizationâ€™s data center.

C. Selling a nonstrategic business unit.

D. Outsourcing a high-risk activity

ANSWER: C

Explanation:

Selling a nonstrategic business unit is a risk avoidance strategy because the organization elects to stop owning and operating the activity that creates the exposure. Rather than attempting to reduce the likelihood or impact of risks within that unit, the organization removes the source of those risks from its operations. This is particularly appropriate when the unit is outside the organization's strategic priorities, requires capabilities the organization does not intend to maintain, or presents a risk profile that is not acceptable in relation to its expected value.

Risk avoidance is a deliberate risk-response decision: management changes plans, activities, products, markets, or ownership arrangements so that a particular risk no longer arises for the organization. A divestiture is a clear example because risks linked to the sold unit—such as operational, regulatory, financial, or reputational exposures associated with its activities—are no longer retained by the seller after the transaction, subject to any specifically negotiated continuing obligations. Internal audit may evaluate whether management's risk assessment, due diligence, governance, and residual obligations associated with the divestiture were appropriately addressed. This approach is consistent with enterprise risk management concepts and the internal audit focus on evaluating risk management processes. See the COSO ERM executive summary and the IIA's Global Internal Audit Standards.

QUESTION NO: 38

Which of the following should be part of the internal audit activity ' s duties?

A. Actively reporting to the governing body.

B. Providing risk management frameworks.

C. Assisting management in developing processes and controls to manage risks and issues.

D. Identifying and mitigating significant risks to the organization.

ANSWER: C

Explanation:

Assisting management in developing processes and controls to manage risks and issues is an appropriate internal audit activity duty when performed as an advisory or consulting service. Internal auditing is intended to add value by evaluating and helping improve governance, risk management, and control processes. Internal auditors can use their expertise to advise management on control design, risk considerations, and process improvements, especially when management is developing or revising a process. This assistance supports stronger organizational practices and can help management make well-informed decisions about how risks should be addressed.

Importantly, management remains responsible for establishing objectives, owning risks, selecting and implementing controls, and operating those controls. The internal audit activity's role is to provide insight and advice without assuming management responsibility or making operational decisions. Where consulting services are provided, the chief audit executive should ensure the work's scope, objectives, and safeguards preserve the internal audit activity's independence and objectivity. The Global Internal Audit Standards recognize assurance and advisory services as ways internal auditing fulfills its purpose of strengthening an organization's ability to create, protect, and sustain value. See the IIA's Global Internal Audit Standards and its overview of internal auditing.

QUESTION NO: 39

A whistle blower notified internal audit of a conflict of interest between an organization ' s employee and a major supplier. Which of the following steps should be undertaken first?

A. Interview the employee identified by the whistleblower.

B. Attain an understanding of the employee ' s role, responsibilities, and relationship with the supplier.

C. Notify senior management, the board, and the external auditor about the alleged fraud

D. Review all the orders issued to the supplier to investigate potential fraud.

ANSWER: B

Explanation:

“Attain an understanding of the employee ' s role, responsibilities, and relationship with the supplier.” is the appropriate first step because it establishes the factual context necessary to assess the allegation objectively and plan a proportionate response. Internal audit should initially obtain available background information, such as the employee’s authority in supplier selection, purchasing, approval, contract administration, or payment processes; the nature and extent of the supplier relationship; and applicable conflict-of-interest declarations and policies. This preliminary understanding helps internal audit identify the relevant risks, preserve confidentiality, determine whether the matter falls within internal audit’s assigned responsibilities, and decide whether a formal investigation or referral is warranted. It also supports an appropriately scoped, evidence-based engagement plan and reduces the risk of taking premature action that could compromise evidence or unfairly affect individuals involved. The IIA’s Global Internal Audit Standards emphasize that internal auditors apply due professional care, assess relevant information, and use a systematic and disciplined approach when performing internal audit services. These principles support obtaining sufficient contextual knowledge before selecting detailed investigative procedures. See the IIA Global Internal Audit Standards and the IIA’s Fraud Risk Management guidance.

QUESTION NO: 40

Which of the following is an example of an application control?

A. Employees in the data center must always wear identification badges

B. Operating system updates must be installed within 48 hours.

C. A two stage authentication process must be used to access customer information

D. System backup and recovery testing must be done monthly

ANSWER: C

Explanation:

A two stage authentication process must be used to access customer information is an application control when the authentication requirement is configured and enforced by the application that stores or presents the customer data. Application controls are automated or manual controls operating within a specific business application to support the completeness, accuracy, validity, confidentiality, and authorization of processing and data access. Requiring users to complete two authentication stages before viewing customer information establishes a control at the point of access to that application and helps ensure that only appropriately authenticated users can reach sensitive records.

This type of control directly supports confidentiality and authorized access by applying a defined access rule to a particular application function or data set. It also produces evidence that can be monitored, such as authentication events and access logs, enabling the organization to oversee access to customer information. The IIA’s Global Internal Audit Standards emphasize evaluating governance, risk management, and controls in areas relevant to engagement objectives, including information and technology risks. Guidance on multifactor authentication from NIST explains its role in strengthening authentication through multiple factors. See the IIA Global Internal Audit Standards and NIST Digital Identity Guidelines.

QUESTION NO: 41

Which of the following best describes the role of internal control frameworks?

A. They outline specific internal controls for an organization to implement to ensure business objectives will be achieved.

B. They provide guidance related to internal control design and implementation to assist with the evaluation and benchmarking of business practices.

C. They serve as a list of appropriate internal controls for auditors to ensure an organization is using best practices.

D. They serve as a template for identifying standardized best practices in effective risk management across industries and countries.

ANSWER: B

Explanation:

They provide guidance related to internal control design and implementation to assist with the evaluation and benchmarking of business practices. Internal control frameworks are principles-based models that give organizations a common, structured way to establish, maintain, assess, and improve internal control. They do not prescribe one universal set of individual controls, because appropriate controls must be tailored to an organization's objectives, risks, industry, size, systems, and regulatory environment. Instead, a framework defines the essential components and principles of an effective system of internal control and helps management determine whether those components are present and functioning together. This common reference point also supports consistent evaluation by management, internal audit, external auditors, regulators, and other stakeholders. For internal auditors, a recognized framework provides suitable evaluation criteria when assessing the design and operating effectiveness of governance, risk management, and control processes. The framework can therefore be used to benchmark current practices, identify gaps, and support recommendations for improvement while preserving management's responsibility for designing and implementing controls. The COSO Internal Control—Integrated Framework describes internal control as a process designed to provide reasonable assurance regarding achievement of objectives. The IIA also explains internal auditing's role in evaluating and improving control processes in its Global Internal Audit Standards.

QUESTION NO: 42

An accounts receivable clerk receives cash payments, posts the payments to customer accounts, and prepares the daily cash deposit.

The clerk has been stealing some cash and manipulating the customer payments to hide the theft.

This fraud could be detected with which of the following controls?

A. Monthly bank reconciliations are performed by the clerk on a timely basis.

B. Total cash deposits for the month are reconciled to the cash receipts journal.

C. Names, amounts, and dates on remittance advices are reconciled with the names, amounts, and dates recorded in the cash receipts journal.

D. Total cash deposits are compared with the bank reconciliation.

ANSWER: C

Explanation:

Names, amounts, and dates on remittance advices are reconciled with the names, amounts, and dates recorded in the cash receipts journal. is the appropriate detective control because remittance advices are source documents that independently identify the customer payment received. Comparing each advice to the cash receipts journal tests whether the payment was recorded to the correct customer account, for the correct amount, and on the correct date. A clerk concealing a cash theft by altering, delaying, or redirecting postings will create discrepancies between the customer's remittance information and the accounting records. For the control to be effective, the reconciliation should be performed promptly by someone independent of cash custody, accounts-receivable posting, and deposit preparation, with discrepancies investigated and resolved. This control directly addresses the risk created by combining receipt, recording, and deposit duties, and it can identify lapping-type manipulation in which one customer's payment is used to conceal the theft of another

customer's payment. The IIA's Global Internal Audit Standards emphasize evaluating whether controls are appropriately designed and operating to manage risks, including fraud risks and segregation-of-duties weaknesses. See the IIA Global Internal Audit Standards and COSO's Internal Control—Integrated Framework resources.

QUESTION NO: 43

Which of the following approaches will internal audit utilize when developing a set of performance standards to measure an organization's risk management process against?

A. Key principles approach

B. Process elements approach

C. Holistic approach

D. Maturity model approach

ANSWER: D

Explanation:

The **Maturity model approach** is appropriate because it establishes defined performance criteria or capability descriptions against which internal audit can assess the design, implementation, consistency, and continual improvement of the organization's risk management process. A maturity model normally describes progressively more developed states of practice, such as informal, repeatable, defined, managed, and optimized. Internal audit can tailor those levels to the organization's size, objectives, risk profile, governance structure, and regulatory environment, then use them as a consistent benchmark for an engagement.

Using maturity-based standards supports an assessment that is both structured and forward-looking. Rather than merely identifying whether individual activities exist, the audit team can determine the degree to which risk management is embedded in decision-making, aligned with strategy, supported by reliable information and reporting, and subject to monitoring and improvement. This allows audit results to communicate the current state of risk-management capability and identify practical improvement priorities. The approach is consistent with the International Professional Practices Framework's expectation that internal audit evaluate and contribute to improving governance, risk management, and control processes. See the IIA's Global Internal Audit Standards and ISO's overview of ISO 31000 risk management.

QUESTION NO: 44

When a plant manager from within the organization is hired as a rotational internal auditor within the internal audit activity which area should he most likely be trained for immediately?

A. Industry knowledge

B. Project management

C. Leadership skills

D. Risk assessments

ANSWER: D

Explanation:

Risk assessments is the most appropriate immediate training area because risk-based thinking is fundamental to internal auditing. A plant manager will ordinarily bring valuable operational, industry, and management knowledge from prior responsibility for plant activities. To operate effectively as an internal auditor, however, the individual must be able to identify objectives, evaluate risks that could affect those objectives, assess the adequacy of related controls, and use risk information to focus audit work on the most significant exposures. This is especially important for a rotational auditor, who must transition from managing operations to providing independent assurance over them. Training in risk assessment helps the new auditor apply a consistent audit methodology, understand how engagements are scoped and prioritized, and

recognize the relationship among risks, controls, and governance processes. The IIA's Global Internal Audit Standards require internal audit functions to possess or obtain the competencies needed to perform their responsibilities and emphasize a risk-based approach to internal audit planning and engagement work. Developing this capability promptly enables the rotational auditor to contribute meaningfully while maintaining the professional mindset required of the internal audit activity. See the IIA Global Internal Audit Standards and the IIA's practice guides.

QUESTION NO: 45

According to the IIA Code of Ethics, the deliberate omission of relevant information from an audit report would violate which principle?

A. Honesty.

B. Competency.

C. Responsibility.

D. Integrity.

ANSWER: D

Explanation:

Integrity. Deliberately omitting relevant information from an audit report is an integrity violation because internal auditors are expected to perform their work honestly, diligently, and responsibly, and to avoid knowingly participating in activities that discredit the profession. The IIA's integrity rules of conduct specifically state that internal auditors must not knowingly be a party to illegal activity or engage in acts that are discreditable to the profession. An audit report that intentionally excludes material, relevant facts can mislead stakeholders, impair informed decision-making, and undermine confidence in the internal audit activity's work. Integrity therefore requires auditors to communicate audit results truthfully and without intentional distortion, including distortion created through omission. This ethical obligation supports the reliability of assurance provided to the board and management and is fundamental to the credibility of internal auditing. The current Global Internal Audit Standards similarly require internal auditors to demonstrate integrity and encourage an ethical culture, reinforcing that trustworthy audit communications depend on honest professional conduct. See the IIA's Code of Ethics and the Global Internal Audit Standards.

QUESTION NO: 46

According to the IIA guidance, who is responsible for periodically assessing the internal audit activity?

A. The board.

B. The chief audit executive.

C. Senior management.

D. The external auditors.

ANSWER: B

Explanation:

The chief audit executive is responsible for periodically assessing the internal audit activity because accountability for its quality assurance and improvement program rests with that role. IIA guidance requires the chief audit executive to establish and maintain a quality assurance and improvement program that evaluates whether internal audit conforms with applicable professional requirements and whether its work is efficient and effective. This program includes ongoing monitoring as well as periodic internal assessments. Periodic assessments provide a structured evaluation of the internal audit activity's practices, conformance, performance, and opportunities for improvement. The chief audit executive may involve appropriately knowledgeable people in conducting an assessment, but retains responsibility for ensuring that the assessment process is established, performed, documented, and communicated as required. The chief audit executive also reports quality-assessment results and improvement plans to the board and senior management, supporting their

governance oversight. External assessments are required at least once every five years under the Global Internal Audit Standards, while the periodic internal assessment remains part of the chief audit executive's continuing quality responsibilities. See the IIA's Global Internal Audit Standards and its Quality Assessment Manual.

QUESTION NO: 47

Which of the following is an appropriate consideration by the auditor when preparing an engagement program for a human resource audit?

A. State the work steps in the form of questions.

B. Use standard audit program for HR from previous years.

C. Include in the audit program certain audit tests requested by audit client.

D. Defer preparation of the audit program after the field work.

ANSWER: C

Explanation:

Include in the audit program certain audit tests requested by audit client. is appropriate because engagement planning should take account of the needs and expectations of relevant stakeholders, including the management client for the human-resources area. Client-requested testing may identify specific concerns such as recruitment practices, employee-file security, payroll authorization, benefits administration, or compliance with employment policies. Considering these requests helps ensure that the engagement is relevant, focused on matters of practical importance, and capable of providing useful assurance or advisory insight.

The internal auditor retains responsibility for professional judgment when incorporating requested procedures. The requested tests should be evaluated against the engagement objectives, scope, risks, available resources, and the internal audit activity's mandate. Once appropriate procedures are selected, they should be documented in the engagement work program along with the methodology for identifying, analyzing, evaluating, and documenting information. This approach supports a risk-based, stakeholder-aware engagement while preserving internal audit's independence and authority over the final program. The IIA's Global Internal Audit Standards emphasize planning engagements based on objectives, risks, and stakeholder expectations, and require documented work programs to achieve engagement objectives. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 48

According to IIA guidance, which of the following would be the most appropriate to help a new internal auditor understand the nature and positioning of the internal audit activity within his organization?

A. The internal audit charter.

B. Examples of internal audit reports.

C. The internal audit policy and procedures manual.

D. The IIA's International Professional Practices Framework.

ANSWER: A

Explanation:

The internal audit charter is the most appropriate source because it formally defines the internal audit activity's purpose, commitment to the Global Internal Audit Standards, mandate, and scope of services. Crucially for a new auditor, it also establishes the activity's organizational position and reporting relationships, including the chief audit executive's direct access to the board. These elements explain where internal audit sits within the organization, the authority it has to obtain information and communicate with management and the board, and the responsibilities it is expected to fulfill. A well-approved charter therefore provides the foundational context a new auditor needs before applying detailed audit procedures

or reviewing completed engagements. It clarifies the activity's independence and its role in supporting governance, risk management, and control, while setting expectations for interactions with senior management and the board. The Global Internal Audit Standards require the chief audit executive to develop, implement, and periodically review a charter that specifies these matters and is approved by the board. See the Global Internal Audit Standards, particularly the requirements addressing the internal audit charter, and the Institute of Internal Auditors' overview of the Standards.

QUESTION NO: 49

A former line supervisor from the Financial Services Department has completed six months of a two-year development opportunity with the internal audit activity (IAA). She is assigned to a team that will audit the organization's payroll function, which is managed by the Human Resources Department. Which of the following statements is most relevant regarding her independence and objectivity with respect to the payroll audit?

A. She may participate, but only after she has completed one year with the IAA.

B. She may participate, because she did not previously work in the Human Resources Department.

C. She may participate, but she must be supervised by the auditor in charge.

D. She may participate for training purposes, to build her knowledge of the IAA.

ANSWER: B

Explanation:

She may participate, because she did not previously work in the Human Resources Department. Internal auditors must maintain an impartial, unbiased mental attitude and avoid auditing activities for which they had previous operational responsibility. The relevant consideration is whether the auditor's former line-management role involved the specific activity being audited—not simply how long she has been assigned to the internal audit activity. Her prior role was in Financial Services, while payroll is managed by Human Resources; therefore, the facts do not indicate that she previously performed, managed, or was responsible for the payroll activity. As a result, no presumed impairment to her objectivity arises from the stated prior employment relationship. The one-year consideration in IIA guidance applies when an auditor is assigned to assess an activity for which that auditor was previously responsible. Internal audit management should nevertheless remain alert to any actual or perceived conflicts and apply safeguards if additional facts reveal a connection to payroll responsibilities. This approach supports the requirement for auditors to perform engagements objectively while recognizing that development assignments can be appropriate when objectivity is preserved. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 50

Overall audit efficiency is enhanced between the internal and external audit functions when:

A. Internal audit coverage is reduced to avoid potential conflicts of interest.

B. Audits of the same department are conducted at different times.

C. The internal audit department reviews functions or departments prior to the external audit.

D. External audit scope is reduced based on the internal audit department's activities.

ANSWER: D

Explanation:

External audit scope is reduced based on the internal audit department's activities because coordinated assurance work can eliminate unnecessary duplication while preserving appropriate audit quality. External auditors may evaluate the internal audit activity's objectivity, competence, and systematic, disciplined approach, then use relevant internal-audit work in determining the nature, timing, or extent of their own procedures. When that evaluation supports reliance, the external auditor can focus resources on areas not sufficiently addressed by internal audit, higher-risk matters, or procedures that

must be performed directly. This produces a more efficient overall assurance effort for the organization and can reduce disruption to audited functions.

This coordination does not transfer the external auditor's responsibility for the audit opinion; rather, it allows the external auditor to make an informed, risk-based decision about the extent to which internal audit work can be used. The IIA's Global Internal Audit Standards emphasize coordination and reliance among assurance providers to enhance coverage and minimize duplication. External-audit standards likewise recognize the use of internal auditors' work after a suitable evaluation. See the IIA Global Internal Audit Standards and PCAOB AS 2605, Consideration of the Internal Audit Function.

QUESTION NO: 51

In a small organization, management is unable to achieve adequate segregation of duties for its cash-handling procedures Therefore hidden surveillance cameras were installed to monitor cash-handling activities Which of the following best describes this type of control?

A. Corrective control

B. Process-level control

C. Compensating control

D. Preventive control

ANSWER: C

Explanation:

Compensating control is correct because management has identified that the normal primary control—adequate segregation of cash-handling duties—cannot be implemented in this small organization. A compensating control is an alternative measure designed to reduce the risk that remains when a preferred or standard control is impractical, unavailable, or insufficient. Here, surveillance provides independent monitoring of cash-handling activity and creates a deterrent to theft or improper processing. It also supplies evidence that can support investigation and management oversight if irregularities are suspected.

Although the cameras may have a detective characteristic because they enable observation of activities, the best classification in the circumstances described is compensating: their purpose is to offset the control weakness created by the inability to segregate duties. Effective internal control requires management to select and implement control activities that respond to identified risks and to adapt those activities to the organization's size, structure, and operating constraints. This approach is consistent with the COSO Internal Control—Integrated Framework and the IIA's Global Internal Audit Standards, which emphasize risk-based governance and control arrangements. See COSO guidance on internal control and The IIA Global Internal Audit Standards.

QUESTION NO: 52

An internal auditor receives confidential information concerning a planned acquisition while performing an advisory engagement. Which of the following actions is most appropriate?

A. Use the information only for legitimate professional purposes and protect it from unauthorized disclosure.

B. Share the information with colleagues who may be interested in investment opportunities.

C. Disclose the information to process owners to obtain their views on the acquisition.

D. Include the information in the engagement report regardless of the agreed audience.

ANSWER: A

Explanation:

Use the information only for legitimate professional purposes and protect it from unauthorized disclosure. Internal auditors have a duty to safeguard information acquired during their work and must not use confidential information for personal benefit or in a manner contrary to law or detrimental to the organization.

The fact that the information was obtained during an advisory engagement does not reduce the auditor's confidentiality obligations. Appropriate handling may include limiting access, following information-security procedures, and communicating with authorized parties only when necessary to perform the engagement. See the IIA Global Internal Audit Standards.

QUESTION NO: 53

Which of the following statements demonstrates that internal auditors are in conformance with the standard of due professional care?

A. Internal auditors have shown they have the freedom to carry out their responsibilities.

B. Internal auditors have demonstrated the skills needed to carry out the audit engagement.

C. Internal auditors have strictly followed a formal audit process in conducting their work.

D. Internal auditors have demonstrated an unbiased mental attitude.

ANSWER: C

Explanation:

Internal auditors have strictly followed a formal audit process in conducting their work. demonstrates due professional care because it reflects disciplined performance of the engagement using an established methodology. Due professional care requires internal auditors to apply the care, judgment, and diligence expected of a reasonably prudent and competent internal auditor. A formal process helps ensure that work is appropriately planned, risks are assessed, relevant and reliable information is obtained and evaluated, conclusions are supported by sufficient evidence, and results are communicated in accordance with professional requirements. It also promotes consistency and appropriate documentation of the auditor's professional judgments throughout the engagement.

The IIA's Global Internal Audit Standards describe due professional care as applying the knowledge, skills, and professional judgment expected of internal auditors, while considering the nature, complexity, and significance of the work. Conducting work through a structured audit process is tangible evidence that this care has been applied in practice, rather than performing procedures informally or without an appropriate framework. See the IIA's Global Internal Audit Standards, particularly the requirements addressing due professional care and engagement performance, and the IIA's Standards resources.

QUESTION NO: 54

An internal auditor wants to compare her organizationâ€™s governance processes to those of a well-known governance model. Which of the following approaches would the auditor take for this purpose?

A. Perform a gap analysis to assess me differences between the approaches

B. Assess the governance processes using computerized modeling techniques

C. identify any differences between the processes using a variance analysis

D. Benchmark the governance processes using a capability maturity modal

ANSWER: A

Explanation:

Perform a gap analysis to assess me differences between the approaches is correct because gap analysis is the structured method for comparing an organization's current governance arrangements with a defined target state, such as an established governance model or framework. The auditor first identifies the model's relevant principles, practices, roles, reporting structures, and oversight expectations. The auditor then maps the organization's existing governance processes

against those criteria and documents where practices align, are absent, or require strengthening. This produces clear, evidence-based findings that can be used to make practical recommendations for improving governance processes.

This approach directly supports internal audit's role in evaluating governance and recommending improvements. The IIA's Global Internal Audit Standards require internal audit to assess governance processes and communicate recommendations where improvement opportunities are identified. A recognized governance model supplies the evaluation criteria; the gap analysis supplies the comparison method and turns differences into actionable improvement work. The scope and depth of the analysis should be risk-based, focusing on governance elements most relevant to organizational objectives, accountability, ethical culture, risk oversight, and decision-making. See the IIA Global Internal Audit Standards and COSO's Internal Control—Integrated Framework resources.

QUESTION NO: 55

During a review of employee benefits, a staff internal auditor observed an ambiguity in the incentive compensation policy. If reported, it could negatively impact the internal auditor ' s compensation. Which of the following would encourage the internal auditor to be objective in his work?

A. Periodic reinforcement of the internal audit activity ' s code of ethics disclosure practices.

B. External assessments of the internal audit activity every five years.

C. Audit committee review of every engagement report at the conclusion of the audit.

D. Internal audit charter approved by the board.

ANSWER: A

Explanation:

Periodic reinforcement of the internal audit activity ' s code of ethics disclosure practices is the most direct measure to encourage objectivity in this circumstance. The auditor has a personal financial interest in how the ambiguity is reported because the resulting decision could affect his own incentive compensation. This creates an actual or perceived impairment to impartial professional judgment. Regular ethics reinforcement makes personnel more likely to recognize such conflicts promptly and follow established disclosure and escalation requirements. It also reinforces the expectation that audit work must be performed honestly, impartially, and without allowing personal interests to influence findings, conclusions, or communications. Once the conflict is identified and disclosed through the internal audit activity's ethics practices, appropriate safeguards can be applied, such as reassignment or supervisory review, while preserving the integrity of the engagement. The IIA's ethical principles emphasize objectivity and require internal auditors not to participate in activities or relationships that may impair, or be presumed to impair, unbiased assessment. This practice therefore directly supports an auditor's ability to address the compensation-policy issue based on evidence and professional judgment. See the IIA's Global Internal Audit Standards and International Standards for the Professional Practice of Internal Auditing.

QUESTION NO: 56

Which of the following is the most effective strategy to manage the risk of foreign exchange losses due to sales to foreign customers?

A. Hire a risk consultant.

B. Implement a hedging strategy.

C. Maintain a large foreign currency balance.

D. Insist that customers only pay in a stable currency.

ANSWER: B

Explanation:

Implement a hedging strategy is the most effective approach because it directly manages the financial exposure created when a company invoices foreign customers in currencies other than its functional currency. Between the sale date and the date cash is received and converted, exchange-rate movements can reduce the home-currency value of the receivable. A hedge is designed to offset that variability. For example, the organization may use a forward exchange contract to lock in the exchange rate for the expected customer payment, or use currency options when it wants protection against adverse movements while retaining potential benefit from favorable movements. The hedge should be aligned with the amount, currency, and expected timing of the foreign-currency receivable, and should operate within approved treasury authorities, counterparty limits, and ongoing monitoring controls. This is a risk-response measure that reduces the likelihood or financial impact of a known market-risk exposure rather than merely identifying, retaining, or attempting to avoid the exposure. Sound governance also requires that management document its foreign-exchange risk appetite and evaluate whether hedging instruments remain effective as underlying sales forecasts and receivable balances change. The U.S. Securities and Exchange Commission describes foreign-currency risk and the use of derivative instruments for managing such exposures in its Investor Bulletin on Foreign Currency Exchange Risk. Additional practical background on currency forward contracts is available from the CME Group.

QUESTION NO: 57

Which of the following is ultimately responsible for the continuing professional development of internal audit activity staff?

A. Individual internal auditors.

B. Chief audit executive.

C. Board of directors.

D. CEO.

ANSWER: B

Explanation:

Chief audit executive. The chief audit executive (CAE) is ultimately accountable for managing the internal audit activity and ensuring that it has sufficient, competent resources to fulfill its mandate. This accountability includes establishing an approach to recruit, develop, and retain internal audit professionals; identifying competency needs in light of the approved audit plan and evolving risks; and providing staff with appropriate training, professional education, coaching, and development opportunities. Continuing professional development is therefore not merely an administrative benefit—it is a key mechanism through which the CAE maintains the internal audit activity's collective proficiency, quality, and ability to provide reliable assurance and advice. The CAE should also evaluate whether development activities address technical auditing skills, business and industry knowledge, technology, communication, and emerging risk areas. While development may be supported by organizational human-resources processes and pursued actively by each auditor, the CAE has the overarching responsibility to ensure the internal audit function as a whole remains suitably skilled and professionally capable. This aligns with the IIA's requirements on managing internal audit resources and developing competent personnel. See the IIA Global Internal Audit Standards and the IIA's Continuing Professional Education guidance.

QUESTION NO: 58

Upon completion of an external quality assessment, which of the following would the chief audit executive be required to report to the board?

A. The total time spent to accomplish the external assessment

B. The detailed evaluation results of the external assessment

C. The competency and independence of the external assessment team

D. The timetable and schedule of the next external assessment

ANSWER: C

Explanation:

The competency and independence of the external assessment team is correct because the chief audit executive's communication of quality assurance and improvement program results to the board must provide sufficient information for the board to understand the reliability and objectivity of the external assessment. This includes the qualifications of the external assessor or assessment team and its independence, including any actual or potential conflicts of interest. Competency demonstrates that the assessors possess the necessary knowledge, skills, and experience to evaluate conformance with the Global Internal Audit Standards and the internal audit activity's performance. Independence supports confidence that the assessment conclusions were reached without undue influence from the organization or the internal audit activity being assessed. Reporting this information enables the board to exercise appropriate oversight of the quality of internal auditing and to place the assessment's conclusions in proper context. The IIA's quality assessment requirements emphasize both the use of qualified, independent external assessors and transparent communication with the board. See the IIA's Global Internal Audit Standards and its Quality Assessment Manual resources.

QUESTION NO: 59

At a conference, an interna! auditor presented a new computer-assisted audit technique developed by his organization. The presentation included sample data derived from performing audit engagements for the organization. Travel costs were paid by the conference organizers, and the trip was approved by the chief audit executive (CAE).

However, neither management nor the CAE was aware that the internal auditor would be making a presentation based on work completed for the organization. According to IIA guidance, which of the following statements is most relevant regarding the actions of the auditor?

A. The auditor did not violate the standard of objectivity because the presentation had no impact on the organization.

B. The auditor violated the principle of confidentiality by disclosing information about the organization without approval.

C. The auditor should have obtained permission before using the material, but did not violate the IIA Code of Ethics or Standards,

D. The auditor breached the conflict of interest standard by accepting payment for travel costs

ANSWER: B

Explanation:

The auditor violated the principle of confidentiality by disclosing information about the organization without approval. Information obtained while conducting internal audit work belongs to, or is entrusted to, the organization and may include sensitive operational details, audit observations, data characteristics, and information about its systems or control environment. Even when a conference presentation is intended to demonstrate a useful computer-assisted audit technique, using sample data derived from organizational audit engagements constitutes disclosure of information acquired during professional duties.

IIA ethical requirements require internal auditors to respect the value and ownership of information received and to avoid disclosing it without appropriate authority, unless a legal or professional obligation requires disclosure. Authorization to travel and acceptance of organizer-paid travel do not amount to authorization to disclose engagement-related material. Because neither the CAE nor management knew of, or approved, the use of audit-derived materials in the presentation, the necessary authorization was absent. The relevant professional issue is therefore the unauthorized disclosure itself. See the IIA's Code of Ethics and the confidentiality requirements in the Global Internal Audit Standards.

QUESTION NO: 60

Which of the following can be used to minimize employees' resentment of controls?

A. Making sure employees are exempt from participating in control creation

B. Implementing controls without lengthy explanations of their purpose

C. Developing general controls rather than detailed, constricting controls

D. Not using controls to achieve goals

ANSWER: C

Explanation:

Developing general controls rather than detailed, constricting controls can help minimize employees' resentment because controls are more readily accepted when they are proportionate to the risk and do not impose unnecessary limits on employees' ability to perform their work. Broad, principle-based controls establish the required boundaries and expected outcomes while allowing employees reasonable discretion in how they meet those expectations. This supports accountability without creating the perception that management distrusts employees or is attempting to micromanage routine activities. Well-designed control activities should be practical, embedded in normal processes, and balanced against operational needs; an overly prescriptive design can create friction, workarounds, and resistance. Internal audit should recognize that effective governance and control depend not only on whether a control exists, but also on whether it is appropriately designed and can be consistently followed in practice. The IIA's Global Internal Audit Standards emphasize evaluating and promoting governance, risk management, and control processes in a way that supports organizational objectives. COSO likewise describes control activities as actions established through policies and procedures to mitigate risks to acceptable levels. See the IIA Global Internal Audit Standards and COSO Internal Control guidance.

QUESTION NO: 61

Which data analytics competency is critical for new internal auditors to possess in order to plan and perform internal audit engagements in conformance with the Standards?

A. Describe data analytics and the application of data analytics methods in internal auditing.

B. Apply data analytics methods in internal auditing.

C. Evaluate the use of data analytics in an internal audit.

D. Understand the definition of data analytics only.

ANSWER: B

Explanation:

Apply data analytics methods in internal auditing. is the critical competency because conformance in planning and performing engagements requires auditors to use relevant knowledge, skills, and tools in practice. Data analytics can help an auditor assess populations, identify anomalies and trends, refine risk assessments, select or test transactions, and develop evidence-based engagement procedures. Possessing the ability to apply these methods means the auditor can translate available data into audit work that supports engagement objectives, scope, procedures, findings, and conclusions.

The Global Internal Audit Standards require internal auditors to possess or obtain the competencies needed to perform their responsibilities and to exercise due professional care. They also require engagement planning to be based on an understanding of relevant information, risks, and controls. Applied analytics is therefore a practical audit capability: it enables the auditor to use organizational data appropriately when designing and executing work, rather than merely being able to define, describe, or assess analytics at a conceptual level. The appropriate depth and technique will depend on the engagement's risks, objectives, data availability, and complexity. See the IIA's Global Internal Audit Standards and its Internal Audit Competency Framework.

QUESTION NO: 62

Which source of audit evidence would provide the least value in flowcharting an organization's purchasing process?

A. An interview with the purchasing supervisor.

B. A review of a sample of purchase orders which were completed during the last month.

C. A review of the purchasing policies and procedures manual.

D. A walk-through of the process with a member of the purchasing staff.

ANSWER: B

Explanation:

A review of a sample of purchase orders which were completed during the last month. provides the least value because completed purchase orders are primarily evidence of individual transactions and their recorded attributes, rather than evidence of the end-to-end workflow used to initiate, authorize, process, record, and monitor purchases. Although the documents may reveal some data fields, approval signatures, or sequencing clues, they cannot reliably show all activities, decision points, handoffs, system steps, exceptions, or informal practices that make up the actual purchasing process. Flowcharting requires an understanding of how work moves through the process, including who performs each activity and which controls operate at each point. Internal auditors should obtain information that is sufficient, reliable, relevant, and useful for the engagement objective; for process documentation, direct understanding of workflow is especially important. The IIA's Global Internal Audit Standards emphasize using appropriate information to support engagement work and conclusions. See the IIA Global Internal Audit Standards. The GAO Yellow Book likewise describes the need for sufficient, appropriate evidence, reinforcing that evidence must fit the specific purpose for which it is used.

QUESTION NO: 63

Which of the following is a second line of defense in effective risk management and control?

A. Purchasing department.

B. Compliance department.

C. Credit department.

D. Internal audit department.

ANSWER: B

Explanation:

Compliance department. is correct because a compliance function typically provides second-line support and oversight within an organization's governance, risk management, and control arrangements. Second-line functions are management functions with specialized expertise that help establish risk-related frameworks, policies, standards, monitoring processes, and reporting. They advise and challenge operational management while supporting the organization's ability to identify, assess, manage, and monitor compliance risks, including legal, regulatory, and internal-policy obligations.

The IIA's Three Lines Model describes first-line roles as those that deliver products or services and manage risks in operations. Second-line roles provide expertise, support, monitoring, and challenge on risk-related matters, while remaining part of management. A compliance department therefore commonly operates in this second-line capacity: it promotes adherence to applicable requirements and monitors whether the organization's compliance-risk controls are designed and operating as intended. This positioning helps governing bodies and senior management receive reliable information about significant compliance exposures and the effectiveness of management's response. The model also recognizes that exact structures vary by organization, but the compliance function's core oversight and advisory responsibilities align directly with the second line. See the IIA's Three Lines Model and its official guidance document.

QUESTION NO: 64

The chief audit executive (CAE) annually develops a budget and resource plan and submits it to the board for approval. This action best fulfills which of the following responsibilities of the CAE?

A. The responsibility to maintain organizational independence.

B. The responsibility to perform engagements with due professional care.

C. The responsibility to communicate corrective action plans to the board.

D. The responsibility to define the purpose of the internal audit activity.

ANSWER: A

Explanation:

The responsibility to maintain organizational independence is correct because obtaining the board's approval of the internal audit budget and resource plan supports the internal audit activity's authority and freedom from undue management influence. Organizational independence depends on the CAE being positioned to communicate directly with the board and on the board overseeing key conditions that enable internal audit to perform its mandate. A board-approved plan establishes the expected staffing, financial resources, technology, and other capabilities needed to deliver the risk-based internal audit plan. It also gives the CAE a formal basis to notify the board if resources become insufficient or are constrained in a way that could limit the activity's scope or effectiveness. This governance arrangement helps ensure that management cannot unilaterally restrict internal audit's capacity to evaluate and report on risks, controls, and governance objectively. The IIA's Global Internal Audit Standards assign the board responsibility for authorizing adequate resources and require the CAE to communicate resource needs and the effect of resource limitations. These requirements directly link budget and resource planning with preserving an independent internal audit function. See the IIA Global Internal Audit Standards and the IIA's Standards resource page.

QUESTION NO: 65

Which of the following is not considered one of the most common red flags for perpetrators of fraud?

A. Excessive control issues.

B. Repeat performance issues.

C. Unusually close association with customers.

D. Experiencing financial difficulty.

ANSWER: B

Explanation:

Repeat performance issues. is the correct response because it is not generally identified as a primary behavioral or situational red flag of occupational fraud. Fraud-risk assessment focuses on observable indicators that may suggest incentive or pressure, opportunity, or rationalization—the elements of the fraud triangle. Common warning signs include an employee's financial difficulties, an unusual degree of control over processes or records, and an overly close relationship with customers or other external parties. These conditions can signal financial pressure, a potential ability to override controls, or an undisclosed conflict that could facilitate improper activity. In contrast, recurring performance problems ordinarily indicate a management, training, capability, or supervision concern. Although any employee issue may warrant appropriate managerial attention, performance concerns alone do not have the direct and well-recognized connection to fraud risk that the established behavioral and situational indicators have. Internal auditors should assess such indicators objectively, consider them in the context of controls and available evidence, and avoid treating a red flag as proof that fraud has occurred. The IIA emphasizes a risk-based approach to evaluating fraud risk, while the ACFE provides current research on behavioral indicators observed in occupational-fraud cases. See the IIA Global Internal Audit Standards and the ACFE 2024 Report to the Nations.

QUESTION NO: 66

What is the primary reason a chief audit executive should dedicate time and resources to support continuing professional development of internal audit staff?

A. To ensure that internal audit staff maintains high overall job satisfaction.

B. To ensure that internal audit staff acquired continuing professional education credits timely.

C. To ensure that top risks are mitigated to an acceptance level.

D. To ensure that internal audit staff have the competency to address high-priority risks.

ANSWER: D

Explanation:

The primary reason is to ensure that internal audit staff have the competency to address high-priority risks. An internal audit function can provide valuable assurance and advice only when its practitioners collectively possess, maintain, and develop the knowledge, skills, and other competencies needed for the organization's current and emerging risk environment. Continuing professional development helps auditors keep pace with changes in business processes, technology, regulation, fraud risks, cybersecurity, data analytics, and audit methodologies. This directly supports the chief audit executive's responsibility to build and maintain a competent internal audit function and to assign engagements to personnel with appropriate capabilities. Competency development should therefore be aligned with the audit plan, the organization's strategic objectives, and the risks requiring the greatest audit attention. It enables internal auditors to perform work with due professional care and to deliver credible conclusions on matters most important to the organization. The Global Internal Audit Standards identify competency as a core requirement and call for the chief audit executive to ensure the internal audit function collectively possesses the necessary competencies and pursues continuing professional development. See the IIA Global Internal Audit Standards and the IIA's Internal Audit Competency Framework.

QUESTION NO: 67

What type of risk management strategy is being employed when an organization installs two firewalls to provide protection from unauthorized access to the network?

A. Diversifying the risk that network access will not be available to legitimate, authorized users.

B. Accepting the risk that there may be attempts at unauthorized access to the network.

C. Avoiding the risk of having a direct network connection to un-trusted networks.

D. Sharing the risk that either firewall could be compromised by hackers.

ANSWER: A

Explanation:

Diversifying the risk that network access will not be available to legitimate, authorized users is correct because deploying two firewalls introduces redundancy into a critical security and network-access component. The organization is not relying on one device, configuration, or potential point of failure to sustain controlled connectivity. If one firewall fails, is taken out of service for maintenance, or is compromised, the additional firewall can help preserve the availability of authorized network access while maintaining protective boundary controls. This is a diversification strategy: the exposure is distributed across more than one protective resource rather than being concentrated in a single firewall. In practice, the design must include suitable architecture, configuration management, monitoring, and testing so that the redundant devices do not create a common point of failure. Firewall deployment is also consistent with the principle of boundary protection described in NIST SP 800-53, control SC-7. From an internal-audit perspective, evaluating whether management has selected and implemented appropriate responses to technology risks supports the risk-based approach required by the IIA Global Internal Audit Standards.

QUESTION NO: 68

At a construction company, supervisors are entitled to bonus payments if there are no safety rule violations on their teams. There are several channels available for workers to report accidents and violations, and all reported violations are investigated. Bonus payment calculations are approved by managers and the head of safety. Which of the controls best addresses the risk that supervisors will conceal accidents on their teams in order to receive the bonus?

A. The investigation of all reported violations

B. The authorization process for bonus calculations

C. The variety of reporting channels

D. The presence of safety rules

ANSWER: C

Explanation:

The variety of reporting channels best addresses the risk because it gives employees ways to report accidents and safety violations independently of the supervisor whose bonus could be affected. The bonus arrangement creates an incentive for a supervisor to suppress or avoid escalating adverse safety information. Accessible alternative reporting routes—such as a safety function, hotline, ethics channel, or higher-level management—reduce the supervisor's ability to control whether an incident becomes known to the organization. They also support timely escalation of information from personnel closest to the event, which is particularly important in a construction environment where workers may observe unsafe conditions or incidents directly.

For a reporting mechanism to be effective, workers must be able to use it confidentially where appropriate and without fear of retaliation. Information received through these channels can then enter the company's established investigation process. This design promotes transparency and provides management with more complete safety information for oversight and bonus decisions. The IIA's Global Internal Audit Standards emphasize evaluating governance, risk management, and control processes, including the flow and communication of relevant risk information. OSHA likewise recognizes that workers need the ability to report work-related injuries and illnesses without retaliation. See the IIA Global Internal Audit Standards and OSHA guidance on employee injury and illness reporting.

QUESTION NO: 69

During a review of the procurement function, an internal auditor identified an existing control for adding new vendors into the vendor contract system. Which of the following would best help the auditor determine the adequacy of the control ' s design?

A. Flowchart of the vendor addition process.

B. Independent confirmations sent to vendors.

C. Analysis of the control ' s costs and benefits.

D. Interview with management of the procurement function.

ANSWER: A

Explanation:

Flowchart of the vendor addition process. is the best basis for assessing control design because it documents the sequence of activities, decision points, handoffs, system entries, approvals, and supporting records involved in creating a vendor. The auditor can use that process view to identify the relevant risks—such as unauthorized vendor creation, fictitious vendors, inaccurate master-data changes, or bypassed due diligence—and then determine whether the identified control is positioned appropriately to prevent or detect those risks. A flowchart also makes clear who performs the control, what information triggers it, whether segregation of duties exists, what evidence it produces, and whether exceptions are routed for review. These are core design considerations: a well-designed control must be capable of addressing the stated risk if it operates as intended. The IIA's Global Internal Audit Standards require internal auditors to assess the design and implementation of controls relevant to engagement objectives and to evaluate whether processes help manage risks within the organization's risk appetite. A documented process flow provides a structured, auditable foundation for that assessment. See the IIA Global Internal Audit Standards and the IIA's Practice Guides.

QUESTION NO: 70

A process owner states that an identified control deficiency is acceptable because the residual risk is within the organization's risk appetite. What should the internal auditor do next?

A. Evaluate whether the risk acceptance decision is supported and authorized appropriately.

B. Require the process owner to implement the auditor's preferred control.

C. Conclude that no audit communication is necessary.

D. Transfer ownership of the risk to the internal audit activity.

ANSWER: A

Explanation:

Evaluate whether the risk acceptance decision is supported and authorized appropriately. Management may decide to accept a risk when the residual exposure is within established risk appetite and tolerance. Internal audit should assess whether the risk assessment is reasonable, the acceptance is made by the appropriate risk owner or authority, and monitoring is sufficient to identify changes in the risk.

The internal auditor should not automatically challenge every accepted risk or substitute an audit judgment for management's risk decision. However, internal audit should communicate if acceptance is unsupported, unauthorized, inconsistent with risk appetite, or likely to prevent achievement of objectives. See the COSO Enterprise Risk Management guidance and the IIA Global Internal Audit Standards.

QUESTION NO: 71

According to NA guidance, which of the following actions by the chief audit executive would best ensure that internal auditors demonstrate due professional care?

A. Developing policies and procedures for the internal audit activity.

B. Ensuring the internal audit activity is not found fallible during audit engagements.

C. Undertaking all engagements that management requests of the internal audit activity.

D. Ensuring the internal audit activity reports functionally to the board of directors.

ANSWER: A

Explanation:

Developing policies and procedures for the internal audit activity is the action that best enables the chief audit executive to ensure due professional care is applied consistently. Due professional care requires internal auditors to make appropriately informed, diligent, and professional judgments while considering such matters as the nature and complexity of the engagement, material risks, the probability of significant errors or nonconformance, and the cost of assurance work relative to potential benefits. Clear, documented audit policies and procedures translate those expectations into repeatable practice. They can establish requirements for engagement planning, risk assessment, evidence collection, supervision, documentation, consultation, communication of results, and quality review. They also give auditors practical direction on when to escalate unusual matters or obtain specialized expertise. The chief audit executive is responsible for establishing and maintaining the methodologies that guide the internal audit function and support conformance with the Global Internal Audit Standards. By embedding due-care expectations in the activity's operating framework and monitoring their use through supervision and quality assurance, the chief audit executive creates conditions in which auditors can consistently perform work with the required competence, diligence, and professional skepticism. See the IIA's Global Internal Audit Standards, particularly the requirements addressing due professional care and internal audit methodologies, and the IIA's Standards resources.

QUESTION NO: 72

An internal auditor is updating the risk register for risks identified during a recent organizational risk assessment. According to the Standards, which of the following would the auditor include in the risk register?

A. Management's acceptance of inadequate controls for cybersecurity risk.

B. Discussions with senior management relating to a new revenue stream.

C. Mitigating controls implemented by the engagement supervisor

D. Project manager planned hours versus time spent for all prior year projects

ANSWER: A

Explanation:

Management's acceptance of inadequate controls for cybersecurity risk belongs in the risk register because it records a clearly identified risk, the organization's control position, and management's selected risk response: acceptance of the residual exposure. A risk register is a key means of documenting and communicating risks, their significance, ownership, existing controls, and the treatment or response applied to them. Recording an accepted cybersecurity exposure gives appropriate stakeholders visibility into a potentially significant threat to the confidentiality, integrity, and availability of information and systems. It also provides an auditable basis for monitoring whether the accepted level of risk remains within the organization's risk appetite as circumstances, threats, or control effectiveness change.

This is consistent with the internal audit activity's responsibility to evaluate risk-management processes and to communicate significant risk matters. Where management accepts a level of risk that may be unacceptable to the organization, the chief audit executive must address the matter with senior management and, if unresolved, the board. Therefore, documenting management's acceptance in the register supports transparent risk governance and informed oversight. The IIA's Global Internal Audit Standards describe internal audit's role in evaluating governance, risk management, and control processes. See also the IIA's practice guides for risk-based internal-audit guidance.

QUESTION NO: 73

Which of the following policies promotes internal audit objectivity?

A. The chief audit executive (CAE) reports functionally to the CEO

B. The CAE s compensation is approved by the chief financial officer

C. The CAE's appointment is determined by the CEO

D. The CAE reports administratively to the chief operating officer

E. The CAE reports functionally to the board

ANSWER: E

Explanation:

"The CAE reports functionally to the board" is correct because functional accountability to the board is a foundational safeguard for the internal audit activity's organizational independence and, consequently, its ability to perform work objectively. The board—often through its audit committee—should oversee the internal audit mandate and be involved in key matters affecting the chief audit executive, including appointment, removal, performance evaluation, and remuneration. This governance relationship gives the CAE an authoritative channel to raise significant risks, control issues, scope limitations, and resource needs without undue influence from the executives responsible for managing operations under review. Functional reporting also supports unrestricted access to the board and enables the CAE to communicate directly and privately when necessary. Under the IIA's Global Internal Audit Standards, the board is responsible for establishing an appropriate reporting relationship that enables the internal audit function to fulfill its mandate independently. The CAE may report administratively to a senior executive for day-to-day support, but functional reporting to the board is the policy that most directly protects objectivity. See the IIA Global Internal Audit Standards and the IIA's supplemental guidance resources.

QUESTION NO: 74

The chief audit executive should periodically report the internal audit activity's purpose, authority, responsibility, and performance, as well as significant risk exposures and control issues, to which of the following?

I. Board of directors.

II. Senior management.

III. Shareholders.

IV. External auditors.

A. II only

B. I and II only

C. I, II, and III only

D. I, III, and IV only

E. Board of directors.
II. Senior management.
III. Shareholders.
IV. External auditors.

ANSWER: B

Explanation:

I and II only is correct. The chief audit executive has a formal responsibility to communicate with both the board and senior management. Periodic reporting enables these two governance groups to understand the internal audit activity's mandate, organizational position, authority, responsibilities, and performance against its approved plan. It also provides timely visibility of significant risk exposures, control weaknesses, fraud risks, governance concerns, and management's progress in addressing agreed actions.

This communication supports informed oversight. The board uses it to fulfill its governance and oversight responsibilities, including protecting the internal audit activity's independence and ensuring it has adequate resources and access. Senior management uses the information to understand important issues affecting organizational objectives and to take or monitor corrective action. The reporting relationship is therefore directed to the board and senior management as the parties responsible for oversight and management of organizational risk and control.

The IIA's Global Internal Audit Standards emphasize the chief audit executive's ongoing communication with the board and senior management, including reporting on the internal audit function's performance and significant results. See the IIA Global Internal Audit Standards and the IIA's Standards and Guidance resources.

QUESTION NO: 75

Which of the following is the internal audit activity expected to do with respect to the organization's governance processes?

A. Formally audit all governance activities.

B. Provide strategic guidance on the organizational processes to senior management.

C. Achieve agreement with the board regarding the range of activities, depth of review, and time period to include in the assessment.

D. Audit against the governance structures and practices widely used in the industry.

ANSWER: C

Explanation:

Achieve agreement with the board regarding the range of activities, depth of review, and time period to include in the assessment is correct because governance is ultimately overseen by the board, and internal audit's governance assessment must be appropriately scoped to the organization's governance framework, risks, and the board's oversight needs. The internal audit activity is required to assess and make recommendations for improving governance processes, but the precise scope of that assessment is not one-size-fits-all. Reaching agreement with the board helps ensure that the review addresses the governance topics of greatest relevance, such as strategic decision-making, risk oversight, ethical culture, accountability, performance management, and communication of risk and control information. It also helps the chief audit executive align assurance work with the internal audit charter, the approved plan, and the board's expectations while preserving internal audit independence. The IIA's Global Internal Audit Standards emphasize the board's role in authorizing, supporting, and overseeing internal audit, including approving its mandate and plans. Governance engagements should therefore be planned through clear communication and alignment with the board. See the IIA Global Internal Audit Standards and the IIA's overview of the Standards.

QUESTION NO: 76

Which of the following activities best demonstrates an internal auditor's commitment to developing professional competencies?

A. Requesting to be part of all engagements on the annual audit plan.

B. Attending a series of locally offered training courses.

C. Completing a skills assessment and development plan for targeted training needs,

D. Attending a webinar on how to use data analytics

ANSWER: C

Explanation:

Completing a skills assessment and development plan for targeted training needs best demonstrates a sustained, deliberate commitment to professional competence. A skills assessment identifies the auditor's current knowledge, technical abilities, and behavioral capabilities in relation to assigned responsibilities and the internal audit activity's objectives. Using that assessment to create a development plan connects learning activities directly to identified gaps, emerging risks, relevant audit methodologies, and anticipated work requirements. This approach is more than simply participating in professional-development events: it establishes a documented, purposeful process for maintaining and improving the competencies needed to perform audit work effectively. The plan can include specific learning objectives, appropriate training or practical-development activities, time frames, and subsequent reassessment of progress. This reflects the Global Internal Audit Standards' expectation that internal auditors maintain and continually develop competencies necessary to fulfill their professional responsibilities. It also helps the chief audit executive ensure that the internal audit activity collectively possesses, obtains, or develops the knowledge and skills needed to execute its mandate. See the IIA's Global Internal Audit Standards and its Certified Internal Auditor program.

QUESTION NO: 77

Which of the following best describes a purpose for the internal audit charter?

A. The internal audit charter authorizes the internal audit activity ' s reporting structure and clearly defines the roles of each internal auditor.

B. The internal audit charter defines the roles and responsibilities of the chief audit executive, board of directors, and senior management.

C. The internal audit charter authorizes access to records, personnel, and physical properties relevant to the performance of audit engagements.

D. The internal audit charter defines the criteria by which the internal audit activity ' s performance will be evaluated

ANSWER: C

Explanation:

The internal audit charter authorizes access to records, personnel, and physical properties relevant to the performance of audit engagements. This is a core purpose of the charter because it formally establishes the internal audit activity's authority to obtain the information, systems access, locations, and people needed to perform its work. Without clear, board-approved authorization, internal auditors could face inappropriate restrictions when gathering evidence, evaluating controls, or investigating matters within the approved scope of internal audit services.

The IIA's Global Internal Audit Standards require the chief audit executive to develop, implement, and periodically review an internal audit charter. The charter must specify the internal audit activity's mandate, including its authority, and it should authorize unrestricted access to the data, records, information, physical property, and personnel necessary to fulfill internal audit responsibilities. This formal authority supports both the effectiveness and organizational independence of the internal audit activity, allowing it to conduct objective assurance and advisory engagements across the organization. The charter is therefore an essential governance document approved by the board and understood by senior management. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 78

Which of the following steps would not be included in a program of selecting and developing human resources for an internal audit department?

A. Scheduling periodic meetings with individual auditors, during which the chief audit executive provides counsel regarding each auditor's performance and professional career development.

B. Establishing an internal review team to assess the auditors' and audit department's compliance with standards, level of audit effectiveness, and compliance with departmental policy.

C. Developing specific job descriptions for audit staff, audit managers, and other auditing positions.

D. Establishing in-house training programs and requiring continuing education for audit staff.

ANSWER: B

Explanation:

Establishing an internal review team to assess the auditors' and audit department's compliance with standards, level of audit effectiveness, and compliance with departmental policy is a quality assurance and improvement activity, rather than a human-resources selection and development activity. A quality assessment evaluates whether the internal audit function conforms with applicable professional requirements and whether its work is effective and efficient. Such reviews can identify opportunities for improvement, but their primary purpose is evaluating the internal audit function as a whole—not recruiting, defining roles, managing individual careers, or delivering staff training.

The Global Internal Audit Standards require the chief audit executive to develop, implement, and maintain a quality assurance and improvement program covering all aspects of the internal audit function. This includes ongoing monitoring and periodic self-assessments or assessments by other qualified persons within the organization. In contrast, a human-resources program focuses on ensuring the function has suitable competency, staffing, job expectations, performance management, professional development, and continuing education. Accordingly, an internal review team performing compliance and effectiveness assessments belongs to the quality assurance framework. See the IIA's Global Internal Audit Standards and its Quality Assurance and Improvement Program resources.

QUESTION NO: 79

Which of the following combinations of conditions is most likely a red flag for fraud?

A. The practice of surprise audits and the implementation of an employee support program.

B. Hiring an employee with a prior fraud conviction and yearly management review.

C. Occasional accounting department overrides and discontinuation of the anonymous fraud hotline due to infrequent use.

D. A veteran employee in upper management experiencing financial difficulties and recently implemented enhanced controls.

ANSWER: C

Explanation:

"Occasional accounting department overrides and discontinuation of the anonymous fraud hotline due to infrequent use" is the strongest fraud red flag because it combines an override of established controls with the removal of a key reporting mechanism. Management or departmental override can permit transactions, adjustments, or accounting treatments to bypass normal authorization and review procedures. Even when described as occasional, overrides should be exceptional, documented, approved at an appropriate level, and subject to independent monitoring, since override authority is a well-recognized avenue through which fraud can be concealed.

Discontinuing an anonymous hotline further weakens the organization's anti-fraud environment. Reporting channels are a core detective control: they allow employees and other stakeholders to raise concerns without fear of retaliation and may reveal issues that routine control activities do not identify. Infrequent reports do not demonstrate that a hotline lacks value; they may instead reflect low awareness, limited trust, or an absence of anonymity. Together, control circumvention and reduced reporting capability create conditions in which fraud can occur and remain undetected. The IIA emphasizes that

internal auditing evaluates fraud risk and the adequacy of controls, including mechanisms for reporting concerns. See The IIA Global Internal Audit Standards and ACFE/COSO Fraud Risk Management Guide resources.

QUESTION NO: 80

Which of the following is true with respect to the risk assessment process?

A. The ethical climate should not be included since this factor cannot be measured quantitatively.

B. More than one risk factor may have to be used to ensure that the risk assessment is comprehensive.

C. Each risk factor should be given equal weighting in order to reduce the opportunity for bias.

D. The risk assessment process should be conducted at least every three years.

ANSWER: B

Explanation:

More than one risk factor may have to be used to ensure that the risk assessment is comprehensive. A sound risk assessment considers the varied factors that can affect the achievement of objectives, rather than relying on one measure alone. Depending on the organization and audit universe, relevant factors can include the significance of financial, operational, strategic, compliance, technology, fraud, and reputational risks; the adequacy of governance and controls; the extent and pace of change; management concerns; and the time since the prior audit. Using multiple relevant factors helps the chief audit executive form a well-supported, risk-based internal audit plan and direct audit resources toward engagements with the greatest potential effect on organizational objectives. The factors and their relative weight should be tailored to the organization's context, strategy, risk appetite, and available risk information, with professional judgment applied throughout the process. The IIA's Global Internal Audit Standards require the chief audit executive to develop an internal audit plan based on a documented assessment of the organization's strategies, objectives, and risks, and to review and adjust that plan as necessary in response to changes. See The IIA's Global Internal Audit Standards and IIA Standards resources.

QUESTION NO: 81

According to IIA guidance, which of the following actions is a chief audit executive required to take with regard to reporting the results of the quality assurance and improvement program?

A. Report external assessments upon completion of such assessments

B. Report external assessments at least annually

C. Report ongoing monitoring quarterly

D. Report post-engagement reviews at least once every five years

ANSWER: A

Explanation:

Report external assessments upon completion of such assessments is required because an external quality assessment is a significant, independent evaluation of whether the internal audit activity conforms with the Global Internal Audit Standards and performs effectively. The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. This communication occurs at least annually for the overall program; however, the results of an external quality assessment must be communicated when that assessment is complete. Timely reporting enables the board and senior management to understand the assessment's conclusions, any identified opportunities for improvement, and the internal audit activity's plans for addressing them. It also supports appropriate board oversight of internal audit quality, independence, and effectiveness. The external assessment itself must be conducted at least once every five years by a qualified independent assessor or assessment team. See IIA Global Internal Audit Standard 8.3, "Quality," in the Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 82

An internal auditor is reviewing a new automated human resources system. The system contains a table of pay rates which are matched to the employee job classifications. The best control to ensure that the table is updated correctly for only valid pay changes would be to:

A. Limit access to the data table to management and line supervisors who have the authority to determine pay rates.

B. Require a supervisor in the department, who does not have the ability to change the table, to compare the changes to a signed management authorization.

C. Ensure that adequate edit and reasonableness checks are built into the automated system.

D. Require that all pay changes be signed by the employee to verify that the change goes to a bona fide employee.

ANSWER: B

Explanation:

Require a supervisor in the department, who does not have the ability to change the table, to compare the changes to a signed management authorization. This control directly addresses both elements of the objective: validity and accuracy of changes to the pay-rate table. A signed authorization establishes that an appropriate person approved the underlying pay change. Comparing the actual system update with that authorization verifies that the approved rate, job classification, and affected employee information were entered as authorized. Importantly, the reviewer lacks the ability to change the table, creating segregation between authorization, processing, and independent review. That separation reduces the risk that an individual could make and conceal an unauthorized or erroneous update. The review should be evidenced, such as through an electronic approval record or signed change report, and performed promptly enough to identify and correct discrepancies before payroll processing. This is consistent with the control-activity principle that organizations use authorizations, verifications, and segregation of duties to mitigate risks to achieving objectives. The IIA's Global Internal Audit Standards also recognize that internal audit evaluates the adequacy and effectiveness of governance, risk management, and control processes, including controls over information systems and data. See the COSO Internal Control—Integrated Framework and the IIA Global Internal Audit Standards.

QUESTION NO: 83

Which of the following is the most significant disadvantage of using checklists to evaluate internal controls?

A. They serve as a reminder of what controls should exist in a process.

B. They require yes/no responses to specific questions, not open-ended responses.

C. They do not capture all controls that may exist.

D. They are useful in assessing risk.

ANSWER: C

Explanation:

The correct answer is **"They do not capture all controls that may exist."** Checklists are generally built from predefined control expectations, prior audit knowledge, policies, or standard process designs. This structure makes them useful for promoting consistency, but it also creates an inherent coverage limitation: the checklist reflects what the auditor anticipated before or during planning, rather than necessarily documenting the full range of controls actually operating in the process. Organizations may use informal, compensating, automated, or locally designed controls that are not represented in a standard checklist. If an auditor relies on the checklist too heavily, those controls may be missed, misunderstood, or not evaluated for design and operating effectiveness. A sound internal audit approach therefore uses checklists as one source of evidence alongside interviews, walkthroughs, observation, process documentation, data analysis, and professional judgment. This supports a sufficiently comprehensive assessment of governance, risk management, and control processes, consistent with the risk-based and evidence-informed approach expected under the IIA's Global Internal Audit Standards. See the IIA Global Internal Audit Standards and the IIA's Standards and guidance resources.

QUESTION NO: 84

According to IIA guidance, which of the following threats to objectivity is described as familiarity ' ?

A. An internal auditor is a close friend or relative of the manager or an employee of the audit client

B. An internal auditor has a long-term business relationship with the audit client.

C. An internal auditor has an economic stake in the performance of the organization

D. An internal auditor is exposed to or perceived to be exposed to pressures from external parties

ANSWER: B

Explanation:

An internal auditor has a long-term business relationship with the audit client. This describes a familiarity threat because an extended professional relationship can cause an auditor to become overly sympathetic to, trusting of, or aligned with the interests and perspectives of the area being audited. Objectivity requires auditors to make balanced assessments based on sufficient, reliable evidence and professional judgment. Where a relationship has existed for a significant period, the auditor may unconsciously accept explanations without sufficient challenge or allow prior experiences to influence audit judgments. The threat is not limited to actual bias; the appearance that the auditor may lack impartiality can also undermine stakeholder confidence in the audit work. The auditor, chief audit executive, and internal audit activity should identify such circumstances and apply safeguards when needed, such as changing assignments, adding independent supervision or review, or otherwise ensuring the engagement can be performed objectively. The IIA's Global Internal Audit Standards emphasize that internal auditors must maintain an impartial mental attitude and manage circumstances that could impair, or appear to impair, objectivity. See the IIA's Global Internal Audit Standards and its Standards resource page.

QUESTION NO: 85

Which of the following is the best way for internal auditors to demonstrate their proficiency to effectively carry out their professional responsibilities?

A. Volunteer for audit engagements in areas or industries in which the auditor is unfamiliar

B. Sign an annual attestation indicating that the auditor has all required competencies to perform her job effectively.

C. Obtain appropriate professional certifications or other designations.

D. Disclose potential impairments to independence or objectivity prior to performing an audit engagement.

ANSWER: C

Explanation:

Obtain appropriate professional certifications or other designations is the best way to demonstrate proficiency because credentials provide externally recognized evidence that an internal auditor has met defined eligibility, knowledge, examination, ethics, and continuing-professional-development requirements. In particular, the Certified Internal Auditor credential is designed specifically for internal audit professionals and demonstrates knowledge across the core areas of internal auditing, including governance, risk management, control, engagement performance, and professional ethics. Specialized credentials may also substantiate proficiency where the audit work requires particular expertise, such as information-systems auditing, fraud examination, or financial auditing.

The IIA's Global Internal Audit Standards require internal auditors to possess or obtain the competencies needed to fulfill their responsibilities, while the chief audit executive is responsible for ensuring the internal audit function collectively has the necessary knowledge, skills, and abilities. Professional certifications are a credible, objective means of evidencing those capabilities and a commitment to maintaining them through continuing education. This supports stakeholder confidence that audit work is performed by qualified professionals in accordance with recognized professional expectations. See the IIA's Global Internal Audit Standards and its Certified Internal Auditor certification information.

QUESTION NO: 86

An internal auditor assessed that the risk of steel theft at a plant is high. In response, the plant's management introduced a number of controls, including fences around the facility, a metal detector at the entrance, and monthly steel inventory counts. If the controls operate as intended, which of the following outcomes would the internal auditor hope to see?

A. The inherent risk will be mitigated to a level lower than the residual risk.

B. The inherent risk will be reduced to an acceptable level.

C. The residual risk will be reduced to an acceptable level.

D. The residual risk will be eliminated

ANSWER: C

Explanation:

The residual risk will be reduced to an acceptable level. Inherent risk is the level of risk that exists before management responds through controls or other risk treatments. Here, steel theft is assessed as high before considering the fences, metal detector, and inventory counts. These controls are management's response to that risk: perimeter fences can deter or impede unauthorized removal, entrance screening can help prevent theft from leaving the facility, and periodic inventory counts can identify losses and support timely investigation. When controls are suitably designed and operating effectively, they reduce the likelihood and/or impact of theft. The risk remaining after those controls are applied is residual risk. Internal auditing evaluates whether management's governance, risk management, and control processes are designed and operating to help keep risks within the organization's established risk appetite or tolerance; it does not expect controls to change the original inherent-risk assessment or necessarily remove every possibility of loss. Therefore, the intended outcome is that the remaining exposure to steel theft is at a level management has determined is acceptable. The IIA defines residual risk as the risk remaining after management takes action to reduce the impact and likelihood of an adverse event. See the IIA's Global Internal Audit Standards and its practice guides for risk-based internal audit guidance.

QUESTION NO: 87

In which of the following situations may the internal audit activity report conformance with the Standards?

A. An internal audit activity has been in existence at least five years and has not completed an external assessment,

B. An internal auditor was assigned to an audit engagement but did not meet individual objectivity requirements.

C. The internal audit activity prepared an internal audit plan that was not risk-based.

D. The internal audit activity has been in existence fewer than five years, but periodic self-assessments were conducted.

ANSWER: D

Explanation:

The internal audit activity has been in existence fewer than five years, but periodic self-assessments were conducted. This situation may support reporting conformance because an external quality assessment is not required immediately upon establishment of an internal audit activity. Under the IIA's Global Internal Audit Standards, the chief audit executive must establish and maintain a quality assurance and improvement program that includes ongoing monitoring and periodic self-assessments. These internal assessments provide evidence of whether the internal audit activity conforms with the Standards and is achieving its performance objectives. The activity's first external quality assessment must be completed within five years of the internal audit activity's establishment, and subsequent external assessments are required at least every five years. Therefore, before that initial five-year point, the activity may state that it conforms with the Standards when the results of its quality assurance and improvement program—including periodic self-assessments—support that conclusion. The statement must reflect the actual results of the assessments and should be supported by appropriate documentation and reporting to the board and senior management. See IIA Global Internal Audit Standards, Domain VIII, especially Principle 8 and Standard 8.3: IIA Global Internal Audit Standards. Additional implementation resources are available from The IIA Standards page.

QUESTION NO: 88

Which of the following factors are commonly assessed to determine the magnitude of risk events?

A. Tolerance and appetite

B. Inherent and residual risk

C. Cost and benefit

D. Impact and likelihood

ANSWER: D

Explanation:

Impact and likelihood are the fundamental factors used to assess the magnitude of a risk event. Impact represents the significance of the consequences should the event occur. Depending on the organization and the risk involved, consequences may include financial loss, operational disruption, regulatory noncompliance, harm to people, reputational damage, or failure to achieve strategic objectives. Likelihood represents the chance or frequency with which the event may occur within a stated period. Evaluating these two dimensions together enables management to assign a risk rating, compare risks consistently, and prioritize risk responses and assurance activities.

This approach is embedded in widely used risk-management frameworks. COSO describes risk assessment as considering the likelihood and impact of risks in relation to the achievement of objectives. The IIA's Global Internal Audit Standards also require internal auditors to understand the organization's risk assessment processes and consider the significance of risks when developing a risk-based internal audit plan. A risk assessment may use qualitative scales, quantitative measures, or a combination of both, but impact and likelihood remain its core inputs. See COSO Enterprise Risk Management guidance and the IIA Global Internal Audit Standards.

QUESTION NO: 89

During a payroll audit, a staff internal auditor suspects that signatures on some of the documents being sampled for examination are not authentic. Which of the following actions should the auditor take before proceeding with the examination?

A. Suggest to the payroll manager that the suspicious documents should be sent to the organization ' s security department for forensic review.

B. Keep the suspicious documents in the workpaper file until the end of the engagement, and then discuss the suspicions with the payroll manager.

C. Discuss the suspicious documents with payroll staff to seek their views on the authenticity of the signatures.

D. Review the suspicious documents with the chief audit executive and seek advice concerning further examination.

ANSWER: D

Explanation:

"Review the suspicious documents with the chief audit executive and seek advice concerning further examination." is the appropriate immediate action because suspected forged signatures may indicate fraud or other serious misconduct, requiring a controlled response rather than routine audit follow-up. The staff auditor should promptly preserve the matter, limit unnecessary discussion, and escalate it through the internal audit activity's established reporting structure. Consulting the chief audit executive allows the concern to be assessed with appropriate professional judgment and ensures that any further work is coordinated with relevant parties, such as legal counsel, security, human resources, or an authorized investigations function where needed.

This escalation also protects the integrity of potential evidence and reduces the risk that individuals connected with the records are inadvertently alerted before the organization determines the proper investigative approach. Internal auditors are expected to apply due professional care, communicate significant risk information, and follow defined protocols when indications of fraud arise. The chief audit executive is responsible for directing the internal audit activity and for ensuring that

engagement work is properly supervised and aligned with organizational policies. The IIA's Global Internal Audit Standards address due professional care, engagement supervision, and communication of significant matters. Additional fraud-related guidance is available from the IIA's Internal Auditing and Fraud resource.

QUESTION NO: 90

Which of the following activities would an internal auditor perform as a consulting engagement for an organization?

A. Advising new internal auditors working for the organization on how to develop strategies on planning audits for the upcoming fiscal year

B. Assessing whether the organization ' s corporate social responsibility program is meeting its yearly goals to reduce carbon emissions.

C. Briefing the organization ' s department managers on how to implement risk management processes into their daily operations.

D. Communicating with senior management to better understand how new purchasing controls will minimize payment processing time.

ANSWER: C

Explanation:

"Briefing the organization ' s department managers on how to implement risk management processes into their daily operations." is a consulting engagement because it provides advice, facilitation, and subject-matter expertise intended to improve the organization's risk-management practices. In this activity, the internal auditor helps managers understand how to incorporate risk-management processes into operational decisions and routines, while management retains responsibility for designing, implementing, and operating those processes. This is consistent with the Internal Audit Activity's advisory role: consulting services are performed at the request of stakeholders and are intended to add value and improve governance, risk management, and control processes without the auditor assuming management responsibility. The engagement can also help establish a common understanding of risk ownership, escalation, and practical integration of risk considerations into departmental work. Appropriate engagement objectives, scope, responsibilities, and safeguards for independence should be agreed with the relevant stakeholders before the work begins. The IIA's Global Internal Audit Standards describe internal auditing as providing assurance, advice, insight, and foresight, and require internal auditors to protect their objectivity when performing advisory work. See the IIA Global Internal Audit Standards and the IIA's Standards and guidance resources.

QUESTION NO: 91

Which of the following statements would typically be included in the responsibility section of the internal audit charter?

A. The internal audit activity will have free and unrestricted access to the chief executive officer, audit committee, and chairman of the board of directors.

B. The internal audit activity shall develop a flexible audit plan, based on a risk assessment conducted at least annually and taking into consideration the risks or control concerns identified by management, and shall submit the plan to the board for approval.

C. The chief audit executive shall obtain the necessary assistance of personnel in areas where audits are performed, as well as specialized services within or outside of the organization.

D. The internal audit activity will not implement controls, develop procedures, install systems, prepare records, or engage in activities that may impair internal auditorsâ€™ judgments.

ANSWER: B

Explanation:

The internal audit activity shall develop a flexible audit plan, based on a risk assessment conducted at least annually and taking into consideration the risks or control concerns identified by management, and shall submit the plan to the board for approval. This is appropriately included in the responsibility section because it states a core duty of the internal audit activity and the chief audit executive: creating a risk-based plan and bringing it to the board for review and approval. The charter formally establishes the internal audit activity's purpose, authority, and responsibility, so it should communicate the activity's accountability for planning work in a way that addresses the organization's most significant risks. A flexible plan is important because risks, strategic priorities, systems, and control concerns can change during the year; the internal audit activity must be able to respond while maintaining board oversight. Board approval of the plan also supports governance by confirming that internal audit's planned coverage is aligned with organizational risk priorities and that the activity has appropriate direction and support. The Global Internal Audit Standards require the charter to specify the internal audit activity's mandate and responsibilities, while planning requirements call for a risk-based strategy and plan communicated to the board. See the Global Internal Audit Standards and the IIA Standards resources.

QUESTION NO: 92

When would on-the-job training be more effective?

A. When participants already have a certain degree of experience and knowledge.

B. When it makes up the largest part of the training budget.

C. When it includes ongoing feedback and coaching from experienced team members.

D. When it is standardized for the whole entire staff.

ANSWER: C

Explanation:

When it includes ongoing feedback and coaching from experienced team members, on-the-job training becomes substantially more effective because learning occurs while the participant performs actual work in its operational context. Timely feedback helps the learner recognize gaps, correct an approach before it becomes habitual, and connect technical knowledge to the organization's specific processes, systems, risks, and controls. Coaching also permits the level of instruction and challenge to be adjusted as the learner develops competence, rather than relying on a fixed, one-time presentation. This is especially valuable in internal audit work, where professional judgment, interviewing, evidence evaluation, documentation, and communication skills are strengthened through observation, practice, and constructive review by proficient colleagues. The Global Internal Audit Standards emphasize that internal auditors must possess or obtain the competencies needed to perform their responsibilities, and that the chief audit executive supports continuing professional development. Structured coaching and feedback are practical mechanisms for building and validating those competencies during real assignments. See the Global Internal Audit Standards and the IIA resources for guidance on competency and professional development.

QUESTION NO: 93

Which of the following is a limitation of detective internal controls in fraud management?

A. Implementation costs tend to be higher than the expected benefits.

B. They tend to be easy for fraudsters to circumvent.

C. They are not designed to improve efficiency of operations.

D. They are not effective in preventing fraud.

ANSWER: D

Explanation:

They are not effective in preventing fraud. Detective controls operate after a transaction, event, or behavior has occurred. In fraud management, their role is to identify indicators of actual or suspected fraud promptly enough that management can

investigate, contain losses, correct the control weakness, and pursue appropriate remediation. Examples include reconciliations, exception reporting, management review of unusual trends, and post-transaction monitoring. These controls can be highly valuable because timely detection limits the duration and impact of a fraud and produces information needed for investigation. However, detection is fundamentally different from prevention: a detective control does not stop the initial fraudulent act before it happens. A sound fraud risk management approach therefore uses detective controls together with preventive controls, such as approvals, segregation of duties, access restrictions, and authorization limits, as well as corrective actions that address identified root causes. The IIA's Global Internal Audit Standards emphasize that internal auditors evaluate the design and implementation of governance, risk management, and control processes, including whether controls are designed to manage risks to an acceptable level. In this context, recognizing the post-event nature of detective controls is essential when assessing residual fraud risk. See the IIA Global Internal Audit Standards and the COSO Internal Control—Integrated Framework resources.

QUESTION NO: 94

An external assessment of an organization's internal audit activity was last completed four years ago Which of the following options would be acceptable this year if the internal audit activity is to fulfill the requirements of the Standards?

A. The internal audit activity conducts a self-assessment that is validated by a qualified and experienced internal auditor and then schedules a qualified, independent external assessor

B. The board nominates an independent individual from senior management in the organization to conduct an assessment of the internal audit activity

C. An external auditor conducts an audit of the organization which includes information about the internal audit activity

D. The chief audit executive schedules a self-assessment and the board approves the results

ANSWER: A

Explanation:

The internal audit activity conducts a self-assessment that is validated by a qualified and experienced internal auditor and then schedules a qualified, independent external assessor is acceptable because the internal audit activity remains within the required five-year external-assessment cycle. The Global Internal Audit Standards require the chief audit executive to develop and maintain a quality assurance and improvement program that includes an external assessment at least once every five years. An external assessment may be performed as a full assessment by an independent qualified assessor or through a self-assessment that is independently validated by a qualified external assessor. With the last assessment completed four years ago, the chief audit executive can use the current year to perform the self-assessment and arrange an appropriately qualified, independent external assessment or validation before the five-year deadline expires. This approach supports a conformance conclusion based on an objective evaluation of the internal audit activity's governance, performance, and compliance with the Standards. It also gives the board credible assurance about the quality of internal audit services and identifies opportunities for improvement. The assessment process should be overseen by the board, including consideration of the qualifications and independence of the external assessor. See the IIA's Global Internal Audit Standards and its Quality Assurance and Improvement Program resources.

QUESTION NO: 95

An organization ' s board has approved an expansion plan into a new market. The board acknowledged that if the expansion is not successful, the organization would encounter large monetary losses consisting of legal fees, research and development costs, rent expenses, and labor fees. Which of the following has the board approved?

A. The risk response.

B. The risk tolerance.

C. The residual risk.

D. The inherent risk.

ANSWER: B

Explanation:

The risk tolerance. The board's approval reflects its acceptance of a defined level of potential financial exposure while pursuing the strategic objective of entering a new market. Risk tolerance expresses the acceptable boundary of variation or loss associated with achieving an objective. Here, the possible legal, research and development, occupancy, and labor costs represent the adverse financial consequences that the organization is prepared to bear if the expansion does not achieve its intended results. By knowingly proceeding despite that exposure, the board has authorized the acceptable loss boundary for this initiative.

Risk tolerance supports practical decision-making by translating the organization's broader willingness to take risk into limits that can be used when planning, monitoring, and escalating risk issues. For a market-expansion objective, financial loss is an especially relevant measure of tolerance because it provides a basis for determining when the level of exposure requires management attention or reconsideration of the initiative. Internal audit can then evaluate whether management has identified, assessed, monitored, and communicated the expansion risks consistently with the board-approved tolerance. The IIA describes risk management as a process that supports the identification and management of risks affecting objectives; see the IIA Global Internal Audit Standards. Related enterprise-risk-management concepts are explained in COSO's Enterprise Risk Management guidance.

QUESTION NO: 96

Which of the following actions should an organization take to detect an emerging risk of potential fraud?

A. Adopt reward and recognition programs that promote good behaviors

B. Undertake background checks for new employees as part of the hiring process

C. Establish an anonymous platform for reporting suspected unethical behaviors

D. Institute periodic educational training on expected ethical behaviors

ANSWER: C

Explanation:

Establishing an anonymous platform for reporting suspected unethical behaviors is an important detective measure because people inside or connected to an organization are often best positioned to notice unusual transactions, policy breaches, conflicts of interest, pressure to override controls, or other early fraud indicators. A confidential reporting channel enables employees, contractors, customers, and other stakeholders to raise concerns promptly, including where they may otherwise fear retaliation or exposure. Information received through the channel can be triaged, investigated, and analyzed for patterns that indicate an emerging fraud risk, allowing management to respond before losses or misconduct become more significant.

This measure also supports a speak-up culture and provides an ongoing source of risk intelligence for management, compliance, and internal audit. For the channel to be effective, the organization should protect confidentiality to the extent possible, prohibit retaliation, define escalation and investigation procedures, and monitor reporting trends. The IIA's Global Internal Audit Standards require internal auditors to consider the potential for fraud when evaluating risks and controls, while a well-designed reporting mechanism helps the organization identify information relevant to that assessment. See the IIA Global Internal Audit Standards and the ACFE/COSO Fraud Risk Management Guide.

QUESTION NO: 97

Which of the following scenarios best illustrates due professional care?

A. An internal auditor who previously worked in the payroll department within the last year was intentionally excluded by the chief audit executive from the audit team assigned to a payroll audit

B. While performing a payroll audit an auditor became skeptical about significant payments made to a manager. The auditor sought to determine whether these payments were reasonable through discussion with a manager in a different department in the organization

C. The head of the payroll department being audited is a business partner of the engagement supervisor During the audit the engagement supervisor sought to maintain his objectivity by not participating in fieldwork

D. An auditor assigned to a payroll audit was unable to reperform some complex payroll computations for a small number of employees The sum of these payments was below the materiality thresholds provided so the auditor did not perform further tests

ANSWER: D

Explanation:

An auditor assigned to a payroll audit was unable to reperform some complex payroll computations for a small number of employees The sum of these payments was below the materiality thresholds provided so the auditor did not perform further tests best illustrates due professional care. Due professional care requires internal auditors to apply the care, judgment, and professional skepticism expected of a prudent and competent auditor. It does not require exhaustive testing of every item or absolute assurance that no errors exist.

In this situation, the auditor recognizes that the computations are complex and considers both the scope of the exception and its financial significance. The affected payments relate to only a small population and are below the established materiality threshold. After evaluating those factors, the auditor makes a proportionate decision not to extend testing. This reflects a risk-based use of audit resources and an appropriate consideration of the relative complexity, materiality, and significance of the matter being evaluated. Professional care therefore supports a well-reasoned testing decision based on the engagement's objectives, risk assessment, and materiality criteria, rather than requiring further work solely because a calculation could not be reperformed. The IIA's Global Internal Audit Standards describe due professional care as applying the knowledge, skills, and judgment expected of a prudent and competent internal auditor. See the IIA Global Internal Audit Standards and the IIA Standards resource page.

QUESTION NO: 98

What is the main difference between a consulting engagement versus an assurance engagement?

A. The nature of services provided are defined in the internal audit charter.

B. Internal auditors must maintain objectivity while performing their work.

C. The objectives and scope of the engagement typically are directed by management.

D. Internal auditors may assume management responsibilities.

ANSWER: C

Explanation:

The objectives and scope of the engagement typically are directed by management. This describes the defining feature of a consulting engagement: it is advisory in nature and is performed at the request of a client, with the engagement's nature and scope agreed with that client. Management therefore has a central role in identifying the issue to be addressed and shaping the work to obtain advice, facilitation, training, or other consulting support. The internal auditor still applies professional judgment in agreeing to work that is appropriate and within the internal audit activity's mandate, but the engagement is designed around the client's needs.

By contrast, assurance work involves the internal auditor making an independent assessment and evaluation of evidence to provide conclusions on governance, risk management, or controls. The International Professional Practices Framework distinguishes consulting services by their client-agreed nature and scope, while retaining the requirement that internal auditors preserve objectivity. The Global Internal Audit Standards also describe internal auditing as providing both assurance and advice, with assurance and advisory work serving different purposes in supporting organizational objectives. See the IIA's Global Internal Audit Standards and its Standards and guidance resources.

QUESTION NO: 99

An internal audit team received the following feedback from operational management via a post-engagement survey " Management agrees with all audit findings However, the audit team did not consider our input on the best way to resolve the issuesâ€□

This feedback is an indication that the internal audit activity may need to improve which of the following interpersonal skills?

A. Leadership

B. Conflict management

C. Communication

D. Influence

ANSWER: C

Explanation:

Communication is the interpersonal skill indicated by this feedback. The audit team successfully conveyed the findings, as shown by management's agreement with them. However, effective internal-audit communication is not limited to presenting conclusions clearly. It also requires active, two-way dialogue with relevant stakeholders, including listening to management's operational knowledge, asking clarifying questions, and considering practical input when developing recommendations or action plans.

Management is generally best positioned to explain process constraints, available resources, root-cause considerations, and the feasibility of possible corrective actions. Seeking and thoughtfully considering that perspective supports recommendations that are both responsive to the identified risk and workable in the operating environment. This does not require internal audit to surrender its objectivity or let management dictate its conclusions. Rather, it means communicating in a collaborative, professional manner so that management input is appropriately incorporated into the discussion of how issues can be resolved.

The IIA's Global Internal Audit Standards emphasize communicating effectively with stakeholders and communicating engagement conclusions and recommendations in a manner that helps management understand and address results. Strong communication therefore includes listening and constructive engagement throughout the engagement, not solely issuing the final report. See the IIA Global Internal Audit Standards and the IIA's Knowledge Center.

QUESTION NO: 100

According to ISO 31000, which of the following statements is correct?

A. The board is responsible for setting the organizational attitude through tone at the top,

B. The internal audit activity will provide assurance over operating effectiveness but not over the design of risk management activities,

C. The internal audit activity can give objective assurance on any part of the risk management framework for which it is responsible.

D. The framework is designed to be effective for organizations no matter how small.

ANSWER: D

Explanation:

The framework is designed to be effective for organizations no matter how small. ISO 31000 is a set of risk-management guidelines intended for use by any type of organization, regardless of its size, activity, or sector. Its framework is not a one-size-fits-all structure that requires a large governance function or extensive resources. Instead, it is designed to help an organization embed risk management into governance, strategy, planning, reporting, policies, values, and culture in a manner suited to that organization's context.

In practical terms, a very small organization can apply the same underlying principles as a multinational organization while using processes, documentation, roles, and controls that are proportionate to its objectives, complexity, and risk exposure. The framework emphasizes leadership and commitment, integration, design, implementation, evaluation, and continual improvement. These components can be scaled and tailored, enabling risk management to create and protect value even where formal structures are limited. ISO describes ISO 31000 as providing principles, a framework, and a process for managing risk that can be used by any organization; see ISO's ISO 31000 risk-management overview and the ISO 31000:2018 standard page.

QUESTION NO: 101

Which of the following activities aligns with The IIA ' s Core Principles for the Professional Practice of Internal Auditing?

A. The chief audit executive reports to senior management for compensation decisions and communications of audit results to the board

B. Final reports from consulting engagements show the summary of findings, and the internal auditor's advice is clearly distinct and separate from management ' s decisions

C. Internal auditors rotate through operations and management positions then perform audit engagements on these areas to ensure timely application of their knowledge

D. Due to limited resources, internal auditors prioritize assurance on internal controls and risk management and exclude evaluating governance processes, which are deemed outside of their core responsibilities

ANSWER: B

Explanation:

"Final reports from consulting engagements show the summary of findings, and the internal auditor's advice is clearly distinct and separate from management ' s decisions" aligns with the Core Principles because it preserves the internal audit activity's objectivity while allowing it to provide valuable advisory services. Consulting engagements may communicate results, observations, recommendations, and advice to the client. A final communication that summarizes the engagement's results supports clarity, accountability, and effective communication with stakeholders.

Most importantly, the activity distinguishes the internal auditor's advisory role from management's responsibility for making decisions and taking action. Internal auditors can help management understand risks, controls, and improvement opportunities, but they must not assume management responsibility. Keeping advice separate from management decisions protects the auditor from auditing work for which the auditor was responsible and supports an independent, objective mindset. This directly reflects the professional expectation that internal auditing provides risk-based assurance, advice, and insight without impairing independence or objectivity. The IIA's standards emphasize that internal auditors may provide advisory services while safeguarding objectivity and that management retains responsibility for risk management, control, and governance decisions. See The IIA Global Internal Audit Standards and The IIA Standards overview.

QUESTION NO: 102

Which of the following best describes the Standards requirement for collective proficiency of the internal audit activity?

A. The internal audit activity must have auditors on staff who collectively possess all of the competencies required to fulfill the internal audit plan,

B. All internal auditors on staff should possess the knowledge, skills, and competencies needed to perform any assurance engagement on the audit plan.

C. The internal audit activity must possess or obtain the competencies needed to carry out their professional responsibilities, including providing relevant advice and recommendations.

D. Internal auditors collectively are responsible for ensuring that the internal audit activity has the competencies required to fulfill the internal audit plan.

E. The internal audit activity must collectively possess or obtain the competencies needed to perform its professional responsibilities.

ANSWER: E

Explanation:

The internal audit activity must collectively possess or obtain the competencies needed to perform its professional responsibilities. This reflects the IIA requirement that the activity as a whole—not necessarily every individual auditor—has access to the knowledge, skills, and other competencies necessary to deliver its responsibilities and complete planned internal audit services. "Obtain" is important because an internal audit function may appropriately address a competency

need through qualified external assurance providers, co-sourcing arrangements, subject-matter specialists, training, or other suitable resourcing methods when the expertise is not available internally. The chief audit executive is responsible for ensuring that the activity's combined capabilities are sufficient and for identifying and addressing gaps. This collective-proficiency approach supports objective, competent audit work across a varied audit plan while recognizing that specialized areas, such as cybersecurity, taxation, engineering, or complex regulatory matters, may require expertise beyond that held by permanent staff. The current requirement is set out in the IIA's Global Internal Audit Standards, particularly Standard 3.1, Competency. See the IIA Global Internal Audit Standards and the IIA's Standards resource page.

QUESTION NO: 103

Which of the following engagements would be considered an appropriate consulting service?

A. The internal audit activity of a commercial bank routinely performs branch audits for compliance with regulations.

B. The internal audit activity participates in a cosourcing arrangement with an IT audit firm to test information systems security.

C. The internal audit activity facilitates biannual training of the risk management team in risk identification methodologies.

D. The internal audit activity partners with external auditors annually to complete fieldwork required as a part of the external audit exercise.

ANSWER: C

Explanation:

The internal audit activity facilitates biannual training of the risk management team in risk identification methodologies is an appropriate consulting service because it is advisory in nature and is intended to help the organization improve its risk-management capability. Consulting services may include facilitation, training, advice, and other collaborative activities undertaken at the request of an engagement client. Here, internal audit is sharing risk-identification methods and facilitating learning; it is not assuming responsibility for identifying, owning, or managing the organization's risks. The risk management team retains responsibility for applying the methodology, evaluating risks, and making management decisions. This distinction protects internal audit's independence and objectivity while allowing it to provide valuable insight based on its knowledge of governance, risk management, and controls. The Global Internal Audit Standards recognize advisory services as a legitimate component of the internal audit mandate, provided the scope is agreed with relevant stakeholders and the activity does not take on management responsibility. Training can therefore be a well-designed consulting engagement when it supports management without replacing management's accountability for the risk management process. See the IIA's Global Internal Audit Standards and its mandatory guidance resources.

QUESTION NO: 104

Which of the following is an indicator of ineffective third-party risk management?

A. Sourcing of third parties does not follow public procurement law.

B. Violations of service conditions trigger either fines or termination.

C. Due diligence of third parties is conducted only after contract signing.

D. The right-to-audit clause is limited by personal data protection regulations.

ANSWER: C

Explanation:

Due diligence of third parties is conducted only after contract signing is an indicator of ineffective third-party risk management because the organization has already made a binding commitment before obtaining sufficient assurance about the third party's integrity, capability, ownership, financial condition, compliance record, information-security practices, and suitability for the service. Effective third-party risk management is preventive: risk-based due diligence should inform selection, approval, contracting, and the design of appropriate contractual safeguards. Completing it only after execution can

expose the organization to avoidable legal, regulatory, operational, fraud, reputational, and data-protection risks, while also reducing its ability to negotiate protections or select a different provider. The IIA's Global Internal Audit Standards emphasize evaluating whether risk-management processes identify, assess, and manage risks in a timely manner. A sound third-party lifecycle therefore includes assessment before onboarding and ongoing monitoring thereafter. The U.S. Department of Justice similarly identifies risk-based due diligence before or during engagement as a hallmark of an effective third-party management process. See The IIA's Global Internal Audit Standards and the U.S. Department of Justice guidance on evaluation of corporate compliance programs.

QUESTION NO: 105

Which of the following is not part of the five-attribute approach to developing documentation for an audit observation?

A. Condition.

B. Effect.

C. Management response.

D. Recommendation.

ANSWER: C

Explanation:

Management response. is not one of the five attributes used to develop and document an audit observation. The five-attribute approach structures the auditor's analysis around the condition identified, the applicable criteria, the cause of the condition, the effect or risk resulting from it, and a recommendation for corrective action. This structure helps ensure that an observation is clear, supported by evidence, risk-focused, and sufficiently actionable for management and the board to understand the issue and the needed improvement.

A management response is related to an observation but is developed by management after the observation has been communicated. It normally states whether management agrees with the issue and describes the action plan, responsible party, and expected completion date. Accordingly, it is management's response to the internal audit communication rather than an attribute of the auditor's observation itself. This distinction supports the Global Internal Audit Standards' expectation that final communications address engagement results and, where applicable, management action plans. See the IIA's Global Internal Audit Standards and its Standards and Guidance resources.

QUESTION NO: 106

A manufacturing organization's multi-step sales and shipping process starts when the organization's headquarters receives the sales order. Headquarters then shares that data with the individual manufacturing facility that compiles the shipment. Finally, the individual manufacturing facility sends the shipments to the customer. Which method should the internal auditor use to document this process in a flowchart?

A. Trace the entire process, from the receipt of the sales order at headquarters to when the goods are shipped to the customer.

B. Request a copy of each individual manufacturing facility's flowcharts, speak with facility managers to confirm that they have been updated and then use the information in a flowchart.

C. Trace the entire process in reverse, beginning with the shipped goods and ending with the receipt of the sales order at headquarters.

D. Obtain information on how management sets sales prices, find documentation about how the organization approves the change of sales prices, and prepare an overview flowchart that links the sales price details.

ANSWER: A

Explanation:

“Trace the entire process, from the receipt of the sales order at headquarters to when the goods are shipped to the customer.” is correct because a flowchart should depict the actual sequence of activities, information flows, handoffs, and responsible organizational units that make up an end-to-end process. Starting with the sales-order receipt and following the transaction forward through transmission of order data to the manufacturing facility, shipment preparation, and final dispatch enables the auditor to document how the process operates in practice. This approach helps identify where information changes hands, where controls may be performed, and where risks such as incomplete order transmission, unauthorized changes, or shipment errors could arise. It also provides a coherent basis for validating the documented process through inquiry, observation, and transaction tracing. The Global Internal Audit Standards require auditors to obtain relevant and reliable information sufficient to support engagement results; following a transaction through its full life cycle is an effective way to obtain that understanding and evidence. See the IIA Global Internal Audit Standards and the IIA guidance resources.

QUESTION NO: 107

Applying ISO 31000, which of the following is part of the external context for risk management?

A. Risk treatment method based on risk evaluation.

B. Organizational culture, objectives, and processes.

C. The regulatory and competitive environment

D. The method of determining the risk level.

ANSWER: C

Explanation:

The regulatory and competitive environment is part of the external context because it consists of conditions outside the organization that can influence its ability to achieve objectives and therefore shape its risk profile. ISO 31000 requires organizations to establish the context in which risks are managed, including external factors such as legal and regulatory requirements, market conditions, competition, economic conditions, technological developments, and relationships with external stakeholders. These factors affect both the risks the organization faces and the criteria it uses to assess and treat those risks. For example, a new regulation may create compliance obligations and potential exposure to penalties, while competitor actions may affect market share, pricing, and strategic priorities. Understanding this environment helps ensure that risk management is aligned with the organization’s operating reality rather than being limited to internal activities. ISO 31000 distinguishes this external setting from the organization’s internal context, which includes matters such as its culture, governance, objectives, capabilities, and processes. The standard’s guidance on integrating risk management with organizational context is available from ISO’s ISO 31000 risk management overview. Additional ISO guidance on the standard and its principles is available through ISO 31000:2018—Risk management guidelines.

QUESTION NO: 108

The chief audit executive (CAE) has hired a new internal auditor who was immediately assigned to a procurement function audit. Because the new auditor's name is similar to that of the procurement manager, some staff members think the two are related, although they are not. Which of the following actions is most appropriate for the CAE to take?

A. Take no action, as there is no impairment to independence.

B. Remove the new internal auditor from the engagement team.

C. Discuss the matter with the appropriate personnel to alleviate concerns.

D. Closely supervise the new auditor and carefully review his work.

ANSWER: C

Explanation:

Discuss the matter with the appropriate personnel to alleviate concerns is the most appropriate action because internal audit objectivity must be protected both in substance and in how the activity is perceived by relevant stakeholders. Although the

auditor and procurement manager are not related and there is no actual conflict of interest, staff members' reasonable concern about a possible relationship could undermine confidence in the engagement's impartiality. The CAE should address that perception openly and promptly by clarifying the facts with the relevant personnel and, where appropriate, documenting that no relationship or other impairment exists. This response is proportionate to the circumstances: it preserves the auditor's assignment while transparently resolving a concern that could otherwise affect the credibility and acceptance of audit results. The IIA's Global Internal Audit Standards require internal auditors to maintain objectivity and to recognize, disclose, and manage situations that may impair, or appear to impair, objectivity. Clear communication is an appropriate safeguard where a perceived impairment can be resolved through factual clarification. See the IIA's Global Internal Audit Standards, particularly the requirements addressing objectivity and the management of impairments, and the IIA's Standards resource page.

QUESTION NO: 109

According to IIA guidance, which of the following best describes how risks are measured?

A. Likelihood and probability.

B. Impact and relevance.

C. Velocity and rate of occurrence.

D. Likelihood and impact.

ANSWER: D

Explanation:

Likelihood and impact. is correct because risk assessment evaluates both the chance that an event may occur and the effect that occurrence would have on the organization's objectives. Likelihood may be expressed qualitatively, such as rare or likely, or quantitatively, such as an estimated frequency or probability. Impact represents the potential consequences if the event occurs and can include financial loss, operational disruption, legal or regulatory exposure, harm to reputation, safety consequences, or failure to achieve strategic objectives.

Considering these two dimensions together enables management and internal auditors to prioritize risks consistently. A risk that is both likely and capable of causing substantial harm generally requires more immediate attention than a risk with a low likelihood or limited consequence. The resulting assessment is often displayed in a risk matrix or heat map and supports the development of risk-based audit plans. This approach aligns with The IIA's definition of risk as the possibility that an event will occur and affect the achievement of objectives, as discussed in its International Professional Practices Framework. The IIA also describes risk assessment as considering the likelihood and impact of risks in its practice guidance resources.

QUESTION NO: 110

During a monthly internal audit staff meeting, the chief audit executive (CAE) decided to reinforce the importance of internal audit staff being objective in their work. Which of the following examples would be most appropriate for the CAE to include as part of the meeting presentation?

A. Statistical sampling techniques should always be used to pull unbiased sampling for testing.

B. Fieldwork completed by internal auditors should be appropriately reviewed.

C. Internal auditors should avoid using the lunch room simultaneously with audit clients.

D. During the audit review period, there should be no nonaudit dialogues with the audit client.

ANSWER: B

Explanation:

Fieldwork completed by internal auditors should be appropriately reviewed. Appropriate supervision and review are important safeguards that help support an auditor's objectivity throughout an engagement. A reviewer can assess whether the work

performed, evidence obtained, judgments made, and conclusions reached are sufficiently supported and free from unsupported assumptions, bias, or undue influence. Review also helps ensure that audit procedures have been performed in accordance with the approved engagement approach and the internal audit methodology.

The IIA's Global Internal Audit Standards require internal auditors to maintain an impartial and unbiased mental attitude when performing services. They also require the chief audit executive to establish methodologies that support the consistent performance of internal audit services, including appropriate supervision and quality review. In practice, a meaningful review of fieldwork provides an independent check on audit judgments before results are communicated, reinforcing the expectation that conclusions must be based on relevant, reliable, and sufficient evidence. This is a practical and broadly applicable way for the CAE to emphasize objective audit work. See the IIA's Global Internal Audit Standards, particularly the requirements addressing objectivity and the performance of internal audit services, and the IIA's Standards resources.

QUESTION NO: 111

A charitable organization provides substantial grants for important medical research. Assuming marginal controls are in place, which of the following possible frauds or misuses of organization assets should be considered the area of greatest risk?

A. Senior executives are using company travel and entertainment funds for activities that might be considered questionable.

B. Purchases of office supplies are made from fictitious vendors.

C. Grants are made to organizations associated with senior executives.

D. A payroll clerk has added a fictitious employee.

ANSWER: C

Explanation:

"Grants are made to organizations associated with senior executives." represents the greatest risk because grantmaking is central to this charity's mission and involves substantial disbursements of its assets. Where senior executives have associations with recipient organizations, they may be able to influence grant selection, terms, renewals, or monitoring in a manner that advances personal, professional, or affiliated interests rather than the charity's stated charitable purpose. Marginal controls increase the likelihood that conflicts are not disclosed, independently evaluated, or appropriately mitigated before funds are committed.

This is a governance and fraud-risk issue with potentially high financial, legal, and reputational consequences. The relevant risk is not limited to direct theft: an improperly influenced grant can divert a large amount of charitable resources to a recipient that was not selected objectively or does not provide commensurate public benefit. Internal audit should therefore give particular attention to conflict-of-interest declarations, related-party identification, independent grant approval, due diligence, award criteria, and post-award monitoring. The IIA's Global Internal Audit Standards emphasize evaluating governance, risk management, and controls over significant risks, while IRS governance guidance identifies conflicts of interest as an important consideration for exempt organizations. See the IIA Global Internal Audit Standards and the IRS guidance on governance for section 501(c)(3) organizations.

QUESTION NO: 112

When testing a sample of payroll records during an engagement, an internal auditor suspects mat fraud has been committed. What should be the next step?

A. The auditor should increase the sample size to determine the extent ol the fraud.

B. The suspicions should be communicated to the chief audit executive.

C. The testing should be completed with the results reported in the final audit report.

D. A fraud investigator should examine the evidence and report back to the auditor.

ANSWER: B

Explanation:

The suspicions should be communicated to the chief audit executive. An internal auditor who identifies indicators of possible fraud must promptly escalate the matter through the internal audit activity's established reporting channels. The chief audit executive is responsible for directing the internal audit activity, determining whether the engagement scope or approach should change, and coordinating with appropriate management, legal, compliance, human resources, security, or specialist investigative resources as required. Prompt communication also helps preserve confidentiality, protect potentially relevant evidence, and ensure that subsequent work is authorized, appropriately supervised, and performed by personnel with suitable fraud-investigation competence. Internal auditors are expected to exercise due professional care and consider the possibility of fraud during engagements, but identifying a suspicion does not automatically authorize the individual auditor to conduct a full investigation independently. The appropriate immediate professional response is therefore to report the suspected fraud to the chief audit executive, who can ensure a controlled and proportionate organizational response consistent with internal policies and escalation protocols. This supports the internal audit activity's responsibility to communicate significant engagement matters and manage engagement resources and risks appropriately under the IIA Global Internal Audit Standards. Additional fraud-related guidance is available from the IIA Practice Guides.

QUESTION NO: 113

In assessing the independence of the internal audit activity, a member of a peer review team should consider all of the following factors except:

A. Access to and frequency of communications with the board of directors or its audit committee.

B. The criteria of education and experience considered necessary when filling vacant positions on the audit staff.

C. The degree to which auditors assume operating responsibilities.

D. The scope and depth of engagement objectives for the audit engagements included in the review.

ANSWER: B

Explanation:

The criteria of education and experience considered necessary when filling vacant positions on the audit staff. is the correct exception because it addresses the internal audit activity's staffing, competence, and resource-management practices rather than its organizational independence. Education and experience requirements help the chief audit executive obtain practitioners with the knowledge, skills, and other competencies needed to perform audit work effectively. Those requirements are therefore relevant to evaluating professional proficiency and the adequacy of internal audit resources.

Independence, by contrast, concerns whether the internal audit activity can perform its responsibilities without conditions that impair its ability to carry out those responsibilities in an unbiased manner. A quality or peer review assessing independence focuses on the internal audit activity's organizational positioning, the chief audit executive's direct access and communications with the board, freedom from inappropriate operational responsibility, and whether the activity can determine and perform work within its authorized scope. These matters establish whether internal audit has the authority and freedom necessary to provide objective assurance and advice. The IIA's Global Internal Audit Standards distinguish independence and objectivity from requirements concerning competent, appropriately resourced personnel. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 114

According to HA guidance, which of the following is true regarding independence and objectivity for small internal audit activities?

A. The chief audit executive (CAE) may consider including a disclaimer on independence in audit reports.

B. The CAE may consider greater involvement of those with suitable knowledge of audit practice.

C. Conformance with this Standard is not dependent upon the size of the internal audit activity.

D. Due to the small size of the internal audit activity, having an external assessment once every seven years is acceptable.

ANSWER: B

Explanation:

The CAE may consider greater involvement of those with suitable knowledge of audit practice. This is an appropriate safeguard for a small internal audit activity, where limited staffing, reporting relationships, and a lack of internal specialists can make it more difficult to demonstrate and maintain organizational independence and individual objectivity. Greater involvement by knowledgeable parties—particularly the board or audit committee and, where appropriate, qualified external advisers—can strengthen oversight of the internal audit activity's mandate, risk-based planning, resources, performance, and quality. Such involvement helps ensure that the CAE can carry out responsibilities without inappropriate management influence and that any actual or perceived impairments are identified and addressed. The IIA's standards-based approach recognizes that the means used to support independence may be tailored to the organization and the size and maturity of the internal audit activity. The essential outcome is effective, independent oversight and objective internal audit work. See the IIA's Global Internal Audit Standards and its guidance resources for further information on applying independence and objectivity requirements.

QUESTION NO: 115

When developing the organization's first risk universe, which of the following would the chief audit executive be least likely to consider?

A. The amount of risk that an organization is willing to seek or accept.

B. The extent and degree of interdependency for identified key risks.

C. The boundaries established to manage the amount of risk taken.

D. The exposure to risks following management's risk responses.

ANSWER: D

Explanation:

The exposure to risks following management's risk responses. is the best answer because a first risk universe is principally a broad, forward-looking inventory of events or conditions that could affect the organization's objectives. At this formative stage, the chief audit executive needs to establish a sufficiently complete view of the organization's risk landscape and its sources of inherent exposure. That foundational inventory supports subsequent risk assessment and risk-based internal audit planning.

Exposure remaining after management has selected and implemented responses is residual risk. Determining residual risk requires a more developed understanding of specific risk responses, the controls through which those responses operate, and their design and operating effectiveness. Those evaluations normally occur as the risk universe is refined, risks are assessed and prioritized, and internal audit performs engagement-level planning and assurance work. Thus, residual exposure is valuable to later risk assessment and audit planning, but is least likely to be a primary consideration when building the organization's initial risk universe.

The IIA's Global Internal Audit Standards require a risk-based internal audit plan based on an assessment of the organization's strategies, objectives, and risks; this begins with a comprehensive risk view before detailed assurance conclusions about responses are available. See the IIA Global Internal Audit Standards and COSO's Enterprise Risk Management executive summary.

QUESTION NO: 116

To meet the resource requirements of this yearâ€™s internal audit plan, the chief audit executive (CAE) has recruited additional staff auditors, including an employee who resigned as a senior supervisor from the accounts payable department two months ago. There is a scheduled accounts payable review that the CAE wants to start within the next five months. Which approach should the CAE take, knowing the expertise of his new recruit in the area intended to be audited?

A. Have the new internal auditorâ€™s previous boss be excused from the area during fieldwork.

B. Have the new internal auditor be responsible for the planning of the audit as well as the review of the audit fieldwork.

C. Have the new internal auditor assigned to other responsibilities and not work on the accounts payable audit engagement.

D. Have the new internal auditor assist with conducting the fieldwork, but ensure that her work is reviewed by the CAE.

ANSWER: C

Explanation:

Have the new internal auditor assigned to other responsibilities and not work on the accounts payable audit engagement. This assignment protects the auditor's objectivity and the credibility of the engagement. The individual held a senior supervisory position in accounts payable only two months earlier and therefore had recent operational responsibility, relationships, and likely involvement in the processes, decisions, controls, and risks that would be evaluated. Even if the auditor acts impartially, stakeholders could reasonably perceive that prior responsibilities or relationships affect professional judgment.

The IIA's Global Internal Audit Standards require internal auditors to maintain an impartial and unbiased mental attitude and require the chief audit executive to manage threats to objectivity. The Standards specifically state that objectivity is presumed to be impaired when an internal auditor provides assurance services for an activity for which the auditor had responsibility within the previous 12 months. Because the planned review would begin well within that period, the CAE should use the recruit's skills in another assignment rather than include the individual in planning, fieldwork, supervision, or review of the accounts payable engagement. This approach preserves both actual and perceived objectivity while allowing the audit to proceed with appropriately independent staff. See The IIA Global Internal Audit Standards and The IIA Standards resource page.

QUESTION NO: 117

Which of the following characteristics could indicate high risk?

A. Management decisions are made by a committee of mid to higher level management personnel.

B. The company is not in a rapidly growing industry.

C. The company's profitability is lower than the industry norm.

D. Management turnover has been very low.

ANSWER: C

Explanation:

The company's profitability is lower than the industry norm is a potential high-risk indicator because it signals that the organization may be under greater financial and operational pressure than its competitors. Below-normal profitability can arise from weakening demand, ineffective pricing, rising costs, inefficient operations, poor investment choices, competitive disruption, or deficiencies in strategic execution. Each of these conditions can threaten the achievement of objectives and therefore merits consideration during an internal audit risk assessment.

Persistent performance pressure may also increase the likelihood that management pursues overly aggressive actions to meet targets, such as unsupported accounting estimates, inappropriate revenue recognition, deferred expenditures, or decisions that sacrifice long-term control effectiveness. Internal auditors should not assume that lower profitability proves misconduct or control failure. Instead, it is relevant risk information that should prompt further inquiry into the underlying causes, trends, governance oversight, financial-reporting processes, and adequacy of risk responses. The IIA's Global Internal Audit Standards require internal audit planning to be based on a documented assessment of strategies, objectives, and risks, including relevant changes and emerging risks. COSO likewise describes performance and risk information as essential inputs to managing risks that could affect organizational value. See the IIA Global Internal Audit Standards and COSO Enterprise Risk Management guidance.

QUESTION NO: 118

Which of the following statements best represents the due professional care that is required of internal auditors?

A. Internal auditors should perform assurance procedures to ensure that all significant risks are identified.

B. Internal auditors should not perform consulting engagements for operations for which they had previous responsibilities.

C. Internal auditors should consider the cost of assurance in relation to the potential benefits.

D. Internal auditors should devise internal audit programs to confirm that the results are accurate.

ANSWER: C

Explanation:

Internal auditors should consider the cost of assurance in relation to the potential benefits. Due professional care requires auditors to apply the care, judgment, and competence reasonably expected of a prudent and competent internal auditor. It does not require an unlimited level of work or absolute assurance. Instead, auditors plan and perform engagements with attention to what is necessary to achieve the engagement objectives, including the significance and complexity of the subject matter, the likelihood of material errors or noncompliance, and the effectiveness of governance, risk management, and controls.

Considering cost against potential benefit is therefore a central practical expression of due professional care. Internal audit resources are finite, so procedures should be designed to provide sufficient, reliable assurance in a manner proportionate to the risk and value of the work. This consideration supports an efficient, risk-based engagement approach while preserving the auditor's responsibility to obtain an appropriate basis for conclusions. The IIA's Global Internal Audit Standards describe due professional care as applying a level of care and skill appropriate to the nature and circumstances of the work; see the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 119

According to IIA guidance, which of the following statements is true regarding consulting engagements performed by the internal audit activity?

A. Consulting engagements typically involve four or five parties: the internal audit activity, engagement client, senior management, board, and sometimes the external auditor.

B. The scope of a consulting engagement is determined by either the engagement supervisor or chief audit executive, and it is finalized prior to beginning fieldwork.

C. According to the Standards, internal auditors are permitted to carry out certain management functions during a consulting engagement.

D. A preliminary risk assessment may not be needed for consulting engagements, because the expectations and objectives of the engagement are determined by the engagement client.

ANSWER: D

Explanation:

A preliminary risk assessment may not be needed for consulting engagements, because the expectations and objectives of the engagement are determined by the engagement client. This reflects the distinctive advisory nature of a consulting engagement. The client requests the service and works with internal audit to establish the engagement's purpose, expected deliverables, and boundaries. Consequently, the amount and formality of planning—including whether a separate, documented preliminary risk assessment is necessary—should be tailored to the nature, complexity, and agreed objectives of the work. Internal audit should still exercise professional judgment, clarify expectations, consider relevant risks, and document an appropriate engagement approach. However, a full preliminary risk assessment comparable to one used for an assurance engagement is not automatically required merely because internal audit is performing the work. The agreed client objective provides the primary context for determining the consulting work to be performed and the level of planning needed. This flexibility does not remove internal audit's duty to preserve objectivity, avoid assuming management responsibility, and ensure that the consulting engagement is conducted in accordance with the organization's internal audit mandate and applicable professional requirements. See the IIA's Global Internal Audit Standards and its International Professional Practices Framework.

QUESTION NO: 120

What is the primary purpose of a fishbone diagram?

A. To depict the areas of responsibility for departments in an organization.

B. To plan and control complex projects, such as internal audits.

C. To represent the frequencies of adverse conditions in a given process.

D. To identify the possible causes of adverse conditions.

ANSWER: D

Explanation:

The primary purpose of a fishbone diagram is to identify and organize the possible causes of an adverse condition, problem, or undesirable outcome. Also called a cause-and-effect diagram or Ishikawa diagram, it visually places the defined problem at the “head” of the diagram and groups potential contributing causes along major branches. Typical categories may include people, processes, systems, materials, measurements, and environmental factors, although the categories should be tailored to the process being reviewed. For internal auditors, this tool is particularly useful during planning, root-cause analysis, and discussions with process owners because it promotes a structured exploration of why a condition may be occurring rather than focusing only on its symptoms. The diagram supports identification of cause relationships and helps the audit team determine where further evidence gathering, testing, or corrective action may be needed. It is a foundational quality-analysis tool designed to facilitate investigation of potential causes. The American Society for Quality describes the fishbone diagram as a tool for displaying possible causes of a specific problem, and the IIA’s Global Internal Audit Standards emphasize evaluating root causes when communicating significant findings and recommendations. See ASQ: Fishbone Diagram and IIA: Global Internal Audit Standards.

QUESTION NO: 121

The accounting department asked the chief audit executive (CAE) to perform a review of suspicious transactions The CAE was an accounting manager for the organization six months ago How should she respond to the request?

A. Decline, if it is consulting engagement because she recently worked in the organization s accounting department

B. Accept, 11 is an assurance engagement, as she has been out of the department long enough to not impair objectivity.

C. Inform the accounting department mat me engagement can take place m the future once she has been removed from accounting for a longer period of time.

D. Accept, it is a consulting engagement with agreed-upon scope and services to be provided by me internal audit activity.

ANSWER: D

Explanation:

“Accept, it is a consulting engagement with agreed-upon scope and services to be provided by me internal audit activity.” is correct because the CAE held management responsibility for accounting only six months earlier. Under the IIA’s former Standard 1130.A1, internal auditors were required to refrain from assessing operations for which they had been responsible within the preceding year. Therefore, the CAE should not lead an assurance engagement that evaluates the accounting activity or reaches an independent assurance conclusion about transactions within that area. The Standards separately recognized that internal auditors may provide consulting services relating to operations for which they previously had responsibility. A consulting engagement is advisory in nature and is performed under an agreed scope, with the client retaining responsibility for decisions, corrective actions, and management of the activity. Before accepting the work, the CAE should communicate the potential impairment arising from her recent accounting-management role and ensure appropriate safeguards, such as transparent disclosure and clear limits on the advisory work. This approach enables useful support in addressing suspicious transactions while preserving the distinction between consulting and independent assurance. See the IIA’s International Professional Practices Framework and Standards resources and the Global Internal Audit Standards for objectivity and impairment requirements.

QUESTION NO: 122

Which of the following scenarios would most likely impair the independence of an internal audit activity?

A. A relative of an internal audit team member works m a department being reviewed

B. The internal audit budget is reduced by management requiring the removal of all IT-related engagements from the audit plan

C. An audit manager removes a finding from the draft report due to disagreements with the chief financial officer

D. The operating effectiveness of a control is reported as ' satisfactory. " because no concerns were identified during planning

ANSWER: B

Explanation:

The internal audit budget is reduced by management requiring the removal of all IT-related engagements from the audit plan most directly impairs the independence of the internal audit activity because management has effectively constrained the activity's audit scope. Independence requires the chief audit executive and internal audit activity to be free from conditions that threaten their ability to perform responsibilities in an unbiased manner. This includes having appropriate authority, access, resources, and unrestricted ability to determine the scope and timing of audit work and communicate results. A management-directed budget reduction that specifically eliminates an entire risk area from the approved plan is more than an ordinary resource constraint: it is interference with risk-based planning and the activity's ability to provide assurance where it may be needed. The chief audit executive should communicate the resulting resource limitation and its effect on audit coverage to the board, which is responsible for supporting the internal audit activity's organizational independence. The IIA's Global Internal Audit Standards emphasize board oversight of the internal audit mandate, resources, and ability to fulfill its responsibilities. See the IIA Global Internal Audit Standards and the IIA's International Professional Practices Framework resources.

QUESTION NO: 123

The internal audit activity is undergoing a self-assessment as part of its quality assurance and improvement program Which of the following observations must be addressed in order for the internal audit activity to achieve conformance with the Standards?

A. The internal audit charter does not identify which audit services are outsourced

B. The internal audit charter has not been reviewed by the legal department

C. The internal audit charter has not been approved by the board within the past year

D. The internal audit charter does not describe the authority of the internal audit activity

ANSWER: D

Explanation:

The internal audit charter does not describe the authority of the internal audit activity must be addressed because a formal charter is a foundational requirement for conformance. The charter establishes the internal audit activity's mandate and must clearly define its purpose, organizational position, and authority. Describing authority is essential because it provides internal audit with the recognized right to obtain unrestricted access to records, personnel, physical properties, and other information needed to perform its responsibilities. It also supports the chief audit executive's ability to communicate directly with the board and carry out assurance, advisory, and other approved services without inappropriate management limitation.

Without a documented description of authority, stakeholders cannot reliably understand the internal audit activity's scope of access, standing in the organization, or capacity to fulfill its responsibilities independently and objectively. This is therefore a charter deficiency that affects conformance with the Global Internal Audit Standards and should be corrected through board approval of an appropriately complete charter. The Standards identify the board's role in approving the internal audit mandate and supporting the authority needed for internal audit to carry out its work effectively. See the IIA's Global Internal Audit Standards and its overview of the Global Internal Audit Standards.

QUESTION NO: 124

Which of the following should an internal auditor take into consideration when making a judgement regarding whether management selected appropriate risk responses?

A. Significant risks

B. Risk capacity

C. Risk appetite

D. Risk tolerance

ANSWER: C

Explanation:

Risk appetite is the appropriate consideration because it expresses the amount and types of risk an organization is willing to accept or pursue in pursuit of its objectives. Management's selection of risk responses—such as accepting, avoiding, reducing, or sharing risk—should be consistent with the boundaries established by the board and senior management through the organization's risk appetite. An internal auditor therefore assesses whether the selected response aligns with that direction and supports achievement of objectives without exposing the organization to a level or type of risk it has not authorized.

The IIA's Global Internal Audit Standards require internal auditors to evaluate the effectiveness of risk management processes, including whether risks are identified and assessed and whether appropriate risk responses are selected. Risk appetite provides the strategic context needed to make that evaluation: it links individual risk decisions to organizational priorities, capacity, and governance expectations. Reviewing it helps the auditor form a sound judgment about whether management's response is appropriate for the organization rather than merely operationally feasible. See the IIA Global Internal Audit Standards and the COSO Enterprise Risk Management guidance.

QUESTION NO: 125

After being terminated due to downsizing, an internal auditor finds a different job with an organization in the same industry. Which of the following actions would violate the IIA Code of Ethics?

A. To determine audit priorities in the new job, the auditor uses the audit risk approach that the auditor's previous employer used, without receiving permission to do so.

B. At the new organization, the auditor is asked to develop forms to implement probability-proportional-to-size sampling. Although unsure of how to perform this type of sampling, the auditor proceeds without asking for assistance.

C. In preparing for an audit at the previous organization, the auditor had conducted a great deal of research on the Internet at home to identify best practices for the management of a treasury function. The auditor has retained much of the research and uses it to conduct an audit of the new employer's treasury function.

D. In the first week at the new organization, the auditor discovers a high fraud risk surrounding the organization's database and suggests that the information technology department implement a new password system to prevent fraudulent actions before they occur.

ANSWER: B

Explanation:

"At the new organization, the auditor is asked to develop forms to implement probability-proportional-to-size sampling. Although unsure of how to perform this type of sampling, the auditor proceeds without asking for assistance." violates the competency obligation applicable to internal auditors. Probability-proportional-to-size sampling is a specialized statistical sampling method; designing forms for its implementation requires sufficient technical knowledge to ensure that the population, size measure, selection process, and resulting conclusions are appropriate. Proceeding while knowingly lacking the necessary expertise, and without obtaining qualified assistance, creates a risk that the audit work will not be performed competently or with due professional care.

The IIA's ethical expectations require internal auditors to undertake services only when they possess, or can obtain, the knowledge, skills, and experience needed to perform them. Competence does not require an auditor to personally know every specialized technique. It does require the auditor to recognize limitations and respond appropriately, such as seeking guidance, training, supervision, or assistance from a qualified specialist before relying on the work. This supports reliable audit conclusions and protects the quality and credibility of the internal audit activity. See the IIA's Global Internal Audit Standards, particularly the competency principle, and the IIA's Code of Ethics.

QUESTION NO: 126

An internal auditor makes a series of observations when performing an analytical review of division operations. The auditor notes the following things: the current ratio is increasing and the quick ratio is decreasing, sales and current liabilities have remained constant, and the number of day sales in inventory is increasing. Which conclusion should the auditor draw from this data?

A. Cash or accounts receivable has decreased.

B. The gross margin has decreased.

C. The division produced fewer items this year than in prior years.

D. The gross margin has increased.

ANSWER: A

Explanation:

Cash or accounts receivable has decreased. With current liabilities unchanged, an increasing current ratio means total current assets increased. The current ratio includes all current assets, notably inventory as well as cash and receivables. In contrast, the quick ratio focuses on the most liquid current assets—normally cash and accounts receivable—and excludes inventory. Therefore, a decreasing quick ratio when the denominator is constant indicates that quick assets have declined. At the same time, the increase in days sales in inventory indicates that inventory is being held longer relative to the cost of goods sold. These observations are consistent with a shift in the composition of current assets: inventory has increased sufficiently to raise total current assets, while cash or receivables have decreased, reducing the pool of quick assets. This is a useful analytical-review observation because it highlights a potential deterioration in short-term liquidity despite an apparently improved current ratio. Ratio definitions and their interpretation are summarized by AccountingCoach's current-ratio guidance and AccountingCoach's quick-ratio guidance.

QUESTION NO: 127

Which of the following best demonstrates the board of directors ' governance over internal control?

A. The board bears direct responsibility for developing and implementing the internal control system.

B. The majority of board members are experienced and qualified members of the organization ' s executive management team.

C. The board may be assisted by an audit committee, chaired by the chief audit executive.

D. The board is responsible for succession planning for the CEO and other key members of the executive management team.

ANSWER: D

Explanation:

The board is responsible for succession planning for the CEO and other key members of the executive management team. This most clearly demonstrates governance over internal control because effective governance includes oversight of the organization's control environment. The control environment is the foundation for all other internal-control components and depends substantially on capable, ethical, accountable leadership. By overseeing succession planning, the board helps ensure continuity of leadership, preserves appropriate tone at the top, and reduces the risk that a sudden leadership

departure could weaken accountability, risk oversight, strategic direction, or the design and operation of controls. This is particularly important for the CEO and other senior executives, whose authority and conduct strongly influence how internal control responsibilities are assigned, monitored, and enforced throughout the organization. The board does not take over management's responsibility to design and operate daily controls; rather, it provides independent oversight of matters that materially affect the control environment and long-term organizational resilience. The IIA's Global Internal Audit Standards recognize the governing body's role in oversight of governance, risk management, and control processes. COSO likewise identifies the board's independence and oversight responsibilities as a core principle of the control environment. See the IIA Global Internal Audit Standards and COSO's Internal Control—Integrated Framework.

QUESTION NO: 128

Which of the following would be most helpful to measure whether an internal audit activity successfully provides risk-based assurance?

A. Percentage of highly significant risks covered by internal audit plan.

B. Percentage of previously unknown risks identified per engagement.

C. Percentage of internal audit staff skilled in alignment with the organization's structure and key risks.

D. Percentage of observations made in assurance engagements compared to advisory engagements.

ANSWER: A

Explanation:

Percentage of highly significant risks covered by internal audit plan. is the most useful measure because risk-based assurance is successful when internal audit directs its finite assurance resources toward the risks that matter most to the organization's objectives, governance, and control environment. Measuring coverage of highly significant risks shows whether the audit plan is actually responsive to the risk assessment rather than merely measuring audit activity, staffing characteristics, or the volume of engagement results. It also provides a meaningful indicator for the chief audit executive and board: a high level of coverage indicates that the plan is addressing the areas where an assurance gap could have the greatest organizational impact. This measure should be supported by a documented, periodically refreshed risk assessment and reported with context, such as the rationale for risks not covered directly by audit work and whether other assurance providers address them. The IIA's Global Internal Audit Standards require the chief audit executive to develop a risk-based internal audit plan that supports the organization's objectives and considers significant risks. See the IIA Global Internal Audit Standards, particularly the requirements for internal audit strategy and planning, and the IIA's Standards overview.

QUESTION NO: 129

When taken by a chief audit executive, which of the following actions would be most likely to prevent division management from exaggerating sales reports?

1. Announcing a series of internal audit engagements focusing on compliance with corporate sales-reporting policies.

2. Asking the president and the board to issue a statement of corporate policy stressing the importance of accurate management

reporting and the negative consequences of intentional misreporting.

3. Setting up a hotline for employees to report fraudulent behavior anonymously,

4. Assisting the controller in developing and monitoring a series of business process indicators, which are historically correlated with, but independent of sales.

A. 1 and 2 only.

B. 2 and 3 only.

C. 2 and 4 only.

D. 3 and 4 only

ANSWER: C

Explanation:

2 and 4 only. is the strongest preventive combination because it addresses both the behavioral incentives behind intentional misreporting and the organization's ability to identify implausible reported results promptly. A policy statement issued by the president and board establishes an appropriate tone at the top. It clearly communicates that accurate reporting is an organizational expectation, that intentional misreporting is unacceptable, and that consequences will follow. Such visible governance support is essential to a control environment in which managers understand accountability for the integrity of information they provide.

Developing and monitoring business-process indicators that are independent of reported sales adds an effective management control and a useful analytic basis for assurance work. For example, operational measures related to production, shipments, customer activity, returns, or cash collections can be compared with reported sales trends. Meaningful inconsistencies can be investigated before distorted sales information drives decisions or becomes embedded in management reporting. The chief audit executive can appropriately assist by applying risk and control expertise while management retains responsibility for designing and operating the indicators.

This approach is consistent with the internal audit activity's role in evaluating and promoting effective governance, risk management, and controls, including reliable reporting and ethical conduct. See the IIA's Global Internal Audit Standards and its guidance on internal auditing and fraud.

QUESTION NO: 130

Which of the following statements best explains why internal auditors map processes?

1. To obtain audit evidence to support auditor's observations.

2. To determine scope and objectives of the audit.

3. To facilitate the identification of ownership and responsibility for key risks.

4. To identify potential efficiency improvements.

A. 1 and 2.

B. 1 and 3.

C. 2 and 4.

D. 3 and 4.

ANSWER: D

Explanation:

3 and 4. Process mapping visually documents how work is performed, including activities, decision points, inputs, outputs, systems, handoffs, and the people or functions involved. This view helps internal auditors identify where responsibility lies for activities that create, manage, or monitor key risks. Clarifying ownership and accountability is particularly valuable when risks cross departmental boundaries or when controls depend on multiple process participants. A process map can therefore support meaningful discussion with management about who is responsible for risk management and control activities.

Process maps also help reveal opportunities for efficiency improvement. By making the end-to-end flow visible, auditors can recognize duplicate steps, avoidable approvals, bottlenecks, rework loops, unclear handoffs, and activities that do not add value. These insights support recommendations that improve process performance while maintaining appropriate controls. The Global Internal Audit Standards emphasize that internal audit considers governance, risk management, and control processes and communicates observations that can help the organization improve. Process mapping is a practical technique for developing that operational understanding and identifying improvement opportunities. See the IIA's Global Internal Audit Standards and its guidance resources.

QUESTION NO: 131

An internal audit team was assigned to review the organization's information security protocol After fieldwork was completed an internal auditor identified an error in the review of security access The error could affect the overall results of the engagement Which of the following is the most appropriate course of action for the internal auditor?

A. Proceed with addressing the error and report any corrections to the engagement supervisor during the scheduled exit meeting

B. Issue the audit report to senior management on schedule but include a disclaimer about the error

C. Proceed with the scheduled closing of the engagement without consideration of the identified error

D. Inform the engagement supervisor of the error and allow the supervisor to determine the appropriate action to take

ANSWER: D

Explanation:

Inform the engagement supervisor of the error and allow the supervisor to determine the appropriate action to take is the most appropriate action because an error that may affect the overall engagement results calls the reliability of the audit evidence and conclusions into question. The individual auditor has a professional duty to promptly communicate significant issues identified during the engagement, including errors in work performed or evidence evaluated. The engagement supervisor is responsible for directing and supervising the engagement, assessing the significance of the error, and deciding whether additional testing, revised analysis, expanded procedures, or changes to the engagement communication are necessary. Prompt escalation supports appropriate quality control before results are finalized and communicated to management or the board. It also preserves the integrity, accuracy, and objectivity of internal audit work. The IIA's Global Internal Audit Standards require engagement work to be properly supervised and require engagement communications to be accurate, objective, clear, concise, constructive, complete, and timely. Addressing a potentially material error through supervisory review helps ensure that the final conclusions are supported by sufficient, reliable, relevant, and useful information. See IIA Global Internal Audit Standards and IIA Standards and Guidance.

QUESTION NO: 132

Which of the following techniques should an internal auditor use in order to conduct an effective interview?

A. Use technical language to establish credibility with the employee being interviewed

B. Avoid straightforward questions to make the person being interviewed think before answering

C. Prepare the next question while the interviewee is responding to demonstrate preparedness

D. Appear confident but not arrogant during the interview to show professionalism

ANSWER: D

Explanation:

Appear confident but not arrogant during the interview to show professionalism is the appropriate technique. Effective audit interviews depend on establishing rapport and maintaining an atmosphere in which the interviewee can provide complete, reliable information. A calm, confident manner communicates that the auditor is prepared, objective, and able to direct the discussion purposefully. At the same time, avoiding arrogance is essential because the auditor's role requires professional respect, open-mindedness, and constructive communication with engagement clients.

This balanced demeanor supports active listening and helps the auditor ask relevant follow-up questions based on what is actually said. It also promotes cooperation, which is particularly important when gathering evidence, clarifying process details, and understanding the causes of observed conditions. The IIA's Global Internal Audit Standards emphasize that internal auditors should communicate effectively and build professional relationships while performing engagements. Professional conduct and respectful interpersonal behavior reinforce the credibility of the audit activity and contribute to high-quality engagement results. Further guidance on the principles and standards governing internal audit practice is available from The IIA Global Internal Audit Standards and the 2024 Global Internal Audit Standards resource page.

QUESTION NO: 133

Using the internal audit department to coordinate regulatory examiners' efforts is beneficial to the organization because internal auditors can:

A. Influence regulatory interpretation of law to better match corporate practice.

B. Recommend changes to the scope of the regulatory examiners' review.

C. Perform fieldwork for the regulatory examiners and thus shorten the regulatory examiners' review.

D. Supply evidence of adequate compliance testing through internal audit workpapers and reports.

ANSWER: D

Explanation:

“Supply evidence of adequate compliance testing through internal audit workpapers and reports” is correct because a well-documented internal audit activity can provide regulatory examiners with reliable, relevant information about the organization’s governance, risk management, controls, and compliance-monitoring activities. Internal audit workpapers ordinarily document the objectives, scope, procedures performed, evidence obtained, conclusions, and follow-up of audit engagements. Reports communicate significant results and management action plans. When regulators can review this existing documentation, they may gain an efficient understanding of the organization’s compliance-control environment and may be able to coordinate their own procedures more effectively.

This coordination is consistent with the internal audit activity’s role in communicating and coordinating with appropriate external assurance providers while preserving internal audit’s independence and objectivity. The Global Internal Audit Standards require the chief audit executive to coordinate with internal and external providers of assurance and advisory services and to consider opportunities to rely on others’ work where appropriate. Providing completed audit reports and supporting workpapers, subject to confidentiality requirements and proper authorization, is a practical means of facilitating that coordination. The regulators remain responsible for defining their examination requirements and reaching their own conclusions. See the IIA’s Global Internal Audit Standards and the IIA’s guidance on coordination and reliance.

QUESTION NO: 134

Which of the following measurements could an auditor use in an audit of the efficiency of a motor vehicle inspection facility?

A. The total number of cars approved.

B. The ratio of cars rejected to total cars inspected.

C. The number of cars inspected per inspection agent.

D. The average amount of fees collected per cashier.

ANSWER: C

Explanation:

The number of cars inspected per inspection agent. is an appropriate efficiency measure because it relates a service output—the number of vehicle inspections completed—to a resource input—the work of an inspection agent. Efficiency concerns how productively an organization converts resources, such as employee time, equipment, facilities, and funds, into outputs. Calculating inspections completed per agent, preferably for a defined and comparable period, gives the auditor a useful throughput indicator of labor utilization at the facility.

To make the measure meaningful, the auditor should establish consistent definitions of an inspection agent and an inspection completed, compare equivalent operating periods, and consider relevant conditions such as inspection type, vehicle mix, staffing schedules, equipment downtime, and statutory inspection requirements. The measure can then be compared with prior periods, similar facilities, staffing plans, or management-established performance targets. It should be interpreted alongside quality and compliance measures so that greater throughput does not mask incomplete or noncompliant inspections. This use of outputs relative to inputs is consistent with performance-audit concepts of efficiency

and supports an internal audit assessment of whether facility resources are being used productively. See the U.S. GAO Government Auditing Standards and the IIA's Global Internal Audit Standards.

QUESTION NO: 135

Which of the following characteristics is typical of the internal audit activity?

A. Serves third parties that need reliable financial information from audit engagements

B. Responds to the needs and desires of senior management and the board, but remains independent of areas under review

C. Ensures the organization complies with laws and regulations in the area under review

D. Is completely independent of senior management, the board and the area under review

ANSWER: B

Explanation:

"Responds to the needs and desires of senior management and the board, but remains independent of areas under review" is typical of an internal audit activity because internal auditing is designed to help the organization achieve its objectives through independent, risk-based assurance and advice. The chief audit executive communicates with senior management and the board to understand organizational objectives, significant risks, and assurance needs, and uses that understanding when developing a risk-based internal audit plan. This responsiveness helps ensure internal audit work is relevant and appropriately focused.

At the same time, internal audit must retain organizational independence and individual objectivity. In practice, this means it must be positioned so it can perform and communicate its work without inappropriate interference, particularly when evaluating the governance, risk management, and control processes of the areas being reviewed. The board's oversight of the internal audit activity, including support for the chief audit executive's authority and independence, is central to preserving this position. Thus, internal audit can be aligned with the needs of governance and management while remaining unbiased in its assessments. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 136

While auditing an organization ' s credit approval process, an internal auditor learns that the organization has made a large loan to another auditor ' s relative. Which course of action should the auditor take?

A. Proceed with the audit engagement, but do not include the relative ' s information.

B. Have the chief audit executive and management determine whether the auditor should continue with the audit engagement.

C. Disclose in the engagement final communication that the relative is a customer.

D. Immediately withdraw from the audit engagement.

ANSWER: B

Explanation:

Have the chief audit executive and management determine whether the auditor should continue with the audit engagement. A substantial loan to an audit team member's relative creates at least an apparent impairment to that person's objectivity when the credit-approval process is under review. Objectivity requires internal auditors to make assessments without being unduly influenced by personal interests or relationships. The issue therefore needs to be promptly disclosed and evaluated by parties with appropriate authority, particularly the chief audit executive. Depending on the facts, appropriate safeguards may include removing the affected auditor from relevant testing, changing assigned responsibilities, adding an independent reviewer, or determining that the auditor may continue only where the relationship has no effect on the work. Involving management is appropriate because the impairment and resulting safeguards should be transparently addressed with the engagement's relevant stakeholders. This measured process protects the integrity, independence, and credibility of the

engagement while ensuring that the audit activity can complete necessary work. The IIA's Global Internal Audit Standards require internal auditors to identify and manage actual, potential, and perceived impairments to objectivity, including through disclosure and suitable safeguards. See the IIA Global Internal Audit Standards and the IIA's Code of Ethics.

QUESTION NO: 137

According to HA guidance, which of the following would best support the internal auditor's conclusion that the organization's risk management processes are effective?

A. The organization has identified all applicable operational and financial risks.

B. The organization has documented its strategic and business objectives.

C. The organization has selected risk responses aligned with its risk appetite.

D. The organization has documented risk information pertinent to its business.

ANSWER: C

Explanation:

The organization has selected risk responses aligned with its risk appetite. This most directly demonstrates that risk management is operating effectively because it links the assessment of risks to deliberate management action within the boundaries the organization is willing to accept. Risk appetite provides a governance-approved framework for deciding whether risks should be accepted, avoided, reduced, shared, or otherwise addressed. When selected responses are consistent with that appetite, management has shown that it is not merely recording risks, but is evaluating their significance and treating them in a manner that supports organizational objectives.

The IIA's risk-management expectations focus on whether relevant risks are identified and assessed and whether appropriate responses are selected and implemented. Alignment with risk appetite is particularly persuasive audit evidence because it indicates that risk decisions reflect the organization's intended balance between opportunity, exposure, and control. An internal auditor would still evaluate the design and operation of the underlying processes, but this alignment is the strongest stated indicator of an effective risk-management process. See the IIA's Global Internal Audit Standards and its risk-management practice guidance.