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QUESTION NO: 1

An internal auditor has identified a significant control deficiency in the processing of supplier-bank-account changes. Management agrees with the finding but proposes a corrective action that will not be implemented for nine months because of a planned system replacement.

The auditor should first

A. Close the finding because management has agreed to corrective action.

B. Assess the residual risk during the period before the corrective action is implemented.

C. Require internal audit to design the replacement system control.

D. Defer reporting the finding until the system replacement is complete.

ANSWER: B

Explanation:

Assess the residual risk during the period before the corrective action is implemented. is correct because management's agreement to a future remediation date does not eliminate the current exposure. The auditor should determine the nature and significance of risk that remains while the deficient process continues, consider whether compensating controls are available, and communicate the implications to appropriate management. This assessment supports an informed decision about whether interim action is necessary.

Internal audit should not assume management has accepted an acceptable level of risk merely because a future system replacement is planned. The Global Internal Audit Standards require follow-up on management action plans and communication when management accepts risk beyond the organization's risk appetite or tolerance. See the IIA Global Internal Audit Standards.

QUESTION NO: 2

The primary concern in a program results audit is a determination that

A. Financial statements are presented in accordance with International Financial Reporting Standards.

B. Desired benefits are being achieved.

C. The entity has complied with laws and regulations.

D. Resources are managed economically and efficiently.

ANSWER: B

Explanation:

Desired benefits are being achieved. A program results audit focuses on effectiveness: whether a program, activity, or initiative is producing the intended outcomes and benefits for its intended recipients or stakeholders. It therefore assesses the relationship between program objectives, the services or interventions delivered, and the actual results attained. The central question is not merely whether money was properly recorded or whether processes operated efficiently, but whether the program has made the intended difference and achieved its stated purpose.

This focus is consistent with performance-audit principles, which recognize effectiveness as the extent to which objectives are achieved and intended results are attained. A sound results audit uses clear, relevant criteria derived from the program's approved objectives, performance measures, expected outcomes, and benefit commitments. Audit evidence may include outcome data, service-user results, comparative performance information, and analysis demonstrating whether observed results can reasonably be associated with the program's activities. This approach provides decision-makers with assurance about whether continued funding, redesign, or corrective action is warranted. See the ISSAI 300 Principles of Performance Auditing and the GAO Government Auditing Standards (Yellow Book).

QUESTION NO: 3

An organization's internal audit charter states that the chief audit executive reports administratively to the chief financial officer and functionally to the board.

Which of the following best demonstrates an effective functional reporting relationship to the board?

A. The chief financial officer approves all changes to engagement scope.

B. The board approves the internal audit plan and receives communications about significant engagement results.

C. The chief audit executive prepares the finance department's operating budget.

D. Internal auditors obtain management approval before communicating with the board.

ANSWER: B

Explanation:

The board approves the internal audit plan and receives communications about significant engagement results. is correct because functional reporting supports the internal audit activity's independence, authority, and accountability to the governing body. Board approval of the risk-based plan and receipt of significant results enable the board to oversee whether internal audit is appropriately focused, sufficiently resourced, and free from undue interference.

Administrative reporting can appropriately address day-to-day matters such as facilities, payroll, and internal communications. It should not prevent the board from overseeing the chief audit executive's appointment, performance, resources, plan, and access to the board. The IIA Global Internal Audit Standards address the chief audit executive's direct interaction with the board and the importance of organizational independence.

QUESTION NO: 4

An internal auditor has completed testing of access rights for a financial-reporting application. The auditor finds that several users have access exceeding their job responsibilities, but no unauthorized transactions were identified.

The most appropriate audit conclusion is that

A. Access controls are effective because no unauthorized transactions were found.

B. Access controls are not operating in accordance with the principle of least privilege.

C. The application should be removed from the organization's financial-reporting environment.

D. The users should be presumed to have committed fraud.

ANSWER: B

Explanation:

Access controls are not operating in accordance with the principle of least privilege. is correct because access rights should be limited to the privileges necessary for each user to perform assigned responsibilities. Excessive access represents a control deficiency even if the auditor did not identify evidence of actual misuse during the period tested. The unnecessary privileges increase the opportunity for unauthorized transactions, inappropriate data changes, or concealment of errors.

The absence of detected unauthorized transactions does not prove that access controls are effective or that no misuse occurred. The finding should be evaluated according to the sensitivity of the application, the nature of the excess privileges, compensating controls, and the potential impact on financial reporting. NIST access-control guidance addresses the principle of least privilege and account management in NIST SP 800-53 Rev. 5. The IIA Global Internal Audit Standards require conclusions to be supported by relevant and reliable information.

QUESTION NO: 5

Which technique is most appropriate for testing the quality of the pre-audit of payment vouchers described in an internal control questionnaire (ICQ)?

A. Analysis

B. Evaluation

C. Verification

D. Observation

ANSWER: C

Explanation:

Verification is the most appropriate technique because the stated control concerns the quality of pre-audit work performed on payment vouchers. An auditor should test that control by examining a sample of vouchers and the documentary evidence that the prescribed pre-payment checks were actually completed. This may include confirming the presence and validity of authorization, supporting invoices or purchase documentation, evidence of mathematical accuracy, appropriate account coding, required approvals, and any pre-audit stamp, signature, checklist, or electronic workflow record. The purpose is to obtain evidence that the control operated as described in the internal control questionnaire, rather than merely that personnel understand the process.

Verification provides direct, document-based audit evidence about whether voucher review requirements were applied consistently before payments were released. The nature, timing, and extent of such testing should be based on the control objective and assessed risk, with samples selected from the relevant audit period. This approach aligns with the principle that audit evidence is obtained through inspection of records and documents, and that audit procedures are designed to test the operating effectiveness of controls. See the IAASB's ISA 500, Audit Evidence and ISA 330, Auditor's Responses to Assessed Risks.

QUESTION NO: 6

During an interview with a data input clerk to discuss a computerized system used to track employee training requirements and compliance, an auditor identifies a potentially significant weakness in the system.

The auditor should

A. Not mention the weakness, directly or indirectly, to avoid making the clerk uncomfortable.

B. Ask indirect questions that will help get more factual information relating to the potential weakness.

C. Ask the clerk about the weakness and determine immediately if the finding should be reported.

D. Conduct a second interview after determining whether the weakness actually exists.

ANSWER: B

Explanation:

Ask indirect questions that will help get more factual information relating to the potential weakness. At the point a possible control issue is noticed, it is an indicator requiring further inquiry rather than a conclusion. Neutral, open-ended, and indirect questions allow the auditor to understand how the training-tracking process actually operates, identify the relevant inputs, approvals, exception handling, system access, and monitoring activities, and obtain evidence without suggesting an expected answer. This approach also helps preserve a constructive interview environment, particularly because a data input clerk may have useful operational knowledge but may not be responsible for designing or owning the control.

Internal audit conclusions must be supported by sufficient, reliable, relevant, and useful information. Gathering factual detail first enables the auditor to assess whether the apparent weakness is real, its cause and scope, and whether compensating controls exist before deciding how it should be communicated. The International Professional Practices Framework emphasizes evidence-based engagement work and communication of engagement results. See the IIA's Global Internal Audit Standards. The same evidence-based principle is reflected in ISO's auditing guidance, which addresses collecting and evaluating objective evidence during audits: ISO 19011:2018.

QUESTION NO: 7

During fieldwork, an auditor obtains a signed policy acknowledgement from a department manager stating that all employees completed mandatory information-security training. Training-system records show that 18 of 120 employees have no recorded completion.

The auditor should

A. Accept the manager's acknowledgement because it is signed.

B. Conclude immediately that the training system is inaccurate.

C. Investigate the discrepancy and obtain additional evidence before reaching a conclusion.

D. Exclude mandatory training from the engagement scope.

ANSWER: C

Explanation:

Investigate the discrepancy and obtain additional evidence before reaching a conclusion. is correct because the conflicting evidence may result from incomplete system records, a reporting-period difference, use of an alternative training method, or an inaccurate management representation. The auditor should not rely solely on either source without understanding the discrepancy and assessing the reliability of the underlying information.

A signed acknowledgement is a management representation and may be useful corroborative evidence, but it is generally less persuasive than independently verifiable records. Conversely, a system extract must also be evaluated for completeness, accuracy, and the period it covers. Internal audit conclusions should be based on sufficient, reliable, relevant, and useful information. See the IIA Global Internal Audit Standards.

QUESTION NO: 8

How does CSA differ from traditional methods of auditing?

A. Shifts some of the responsibilities away from the auditors towards others such as work teams.

B. Allocated additional responsibilities to internal audit.

C. Reduces the level of collaboration required between managers and internal auditor.

D. Allows assessment to be carried out without any internal audit involvement whatsoever, therefore allowing them to focus their attention on other areas of theorganization.

ANSWER: A

Explanation:

"Shifts some of the responsibilities away from the auditors towards others such as work teams." is correct because control self-assessment (CSA) is a participative assurance approach in which the people responsible for a process, its risks, and its controls actively assess whether those controls are appropriately designed and operating as intended. Rather than the internal auditor performing all assessment activity independently through a conventional audit, process owners and work teams contribute their operational knowledge, identify risks and control gaps, and agree improvement actions. This creates stronger ownership of internal control and risk management within the business.

Internal audit still has an important role in a CSA programme: it may facilitate workshops, provide methodology and training, challenge conclusions, and use its professional judgement to determine the degree of validation or independent assurance needed. The approach therefore supplements—not removes—the internal audit function's responsibility to provide objective assurance. This aligns with the Global Internal Audit Standards' emphasis on evaluating and promoting effective governance, risk management, and control processes, while preserving internal audit independence and objectivity. Further guidance on internal auditing's role in control self-assessment is available from The IIA Global Internal Audit Standards and the COSO Internal Control guidance.

QUESTION NO: 9

An example of an internal non-financial benchmark is

A. The labor rate of comparably skilled employees at a major competitor's plant.

B. The average actual cost per pound of a specific product at the company's most efficient plant becomes the benchmark for the company's other plants.

C. The company setting a benchmark of $50,000 for employee training programs at each of the company's plants.

D. The percent of customer orders delivered on time at the company's most efficient plant becomes the benchmark for the company’s other plants.

ANSWER: D

Explanation:

The percent of customer orders delivered on time at the company's most efficient plant becomes the benchmark for the company’s other plants. is an internal non-financial benchmark because it uses performance achieved within the same organization as the comparison standard for other internal operations. The measure—percentage of orders delivered on time—evaluates operational and customer-service performance rather than money, cost, revenue, or another financial amount. Management can use the leading plant’s result to establish a realistic performance target, identify process practices worth sharing, and monitor whether the other plants improve delivery reliability over time. Internal benchmarking is especially useful where facilities conduct comparable activities, because their results can be measured using a common definition and data-collection method. A sound benchmark should also specify the reporting period, what constitutes an order delivered “on time,” and how exceptions are treated, so that comparisons support valid audit evidence and meaningful management action. The Institute of Internal Auditors describes internal audit’s role in evaluating and improving governance, risk management, and control processes, which can include assessing the reliability and effectiveness of operational performance monitoring. See the IIA Global Internal Audit Standards and the ASQ overview of benchmarking.

QUESTION NO: 10

Computer fraud is discouraged by

A. Being willing to prosecute.

B. Ostracizing whistle-blowers.

C. Overlooking inefficiencies in the judicial system.

D. Accepting the lack of integrity in the system.

ANSWER: A

Explanation:

Being willing to prosecute. is correct because a credible response to detected computer fraud is an important deterrent. Individuals are less likely to misuse systems, data, or organizational assets when they understand that misconduct will be investigated, documented, and referred for appropriate disciplinary or legal action. Willingness to prosecute demonstrates that management treats fraud as a serious violation rather than an acceptable operational loss. This increases the perceived likelihood and consequences of detection, both of which are central to fraud deterrence.

For an internal auditor, this means evaluating whether the organization has clear incident-response, investigation, evidence-preservation, and escalation procedures. These procedures should enable management to act consistently when suspected computer fraud arises and, where warranted, cooperate with law-enforcement authorities. A visible, consistently applied enforcement posture also supports an ethical control environment and reinforces employee awareness that access to information systems carries accountability. The U.S. Department of Justice describes the importance of effective compliance programs and appropriate remediation, including investigations and consequences for misconduct, in its Evaluation of Corporate Compliance Programs. The Association of Certified Fraud Examiners likewise identifies deterrence as a key component of fraud-risk management in its fraud resources.

QUESTION NO: 11

Which of the following areas are addressed by attribute standards?

A. Independence, objectivity, and nature of the work

B. Independence, communication of findings, and the resolution of problems affecting the risks accepted by management

C. Independence, objectivity and proficiency

D. Engagement planning, engagement execution, and progress monitoring

ANSWER: C

Explanation:

Independence, objectivity and proficiency is correct. Under the International Professional Practices Framework terminology used by this question, Attribute Standards describe the essential characteristics of the organizations and individuals performing internal-audit work. Independence and objectivity are foundational attributes: the internal audit activity must be positioned so it can perform its responsibilities free from conditions that impair its ability to do so, while internal auditors must maintain an unbiased mental attitude when conducting their work. Proficiency is also an Attribute Standard area because internal auditors collectively need the knowledge, skills, and other competencies necessary to carry out their professional responsibilities, supported by appropriate professional care.

These areas concern the capability, professional standing, and conduct of the internal audit function and its personnel rather than the detailed steps used to perform a particular engagement. The International Internal Audit Standards have since been updated and reorganized, but these principles remain central to the profession's requirements for independence, objectivity, competency, and due professional care. See the Institute of Internal Auditors' Global Internal Audit Standards and its Standards overview.