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Practice of Internal Auditing

IIA IIA-CIA-Part2

Version Demo

Total Demo Questions: 123

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Topic Break Down

Topic	No. of Questions
Topic 1, Planning the Engagement	427
Topic 2, Performing the Engagement	488
Topic 3, Communicating Engagement Results and Monitoring Progress	252
Topic 4, Mix Questions	66
Total	1233

QUESTION NO: 1

During the planning phase of an assurance engagement, the internal audit engagement team identifies and evaluates the inherent fraud risks within the procurement function. What should be the engagement teamâ€™s next step?

A. Identify and map existing controls to their relevant inherent fraud risks

B. Detect fraudulent activities in the activity under review for the audited period

C. Select the appetite level for each inherent fraud risk

D. Evaluate and respond to residual fraud risks that need to be mitigated

ANSWER: A

Explanation:

Identify and map existing controls to their relevant inherent fraud risks is the appropriate next step because inherent risk represents the exposure before considering the effect of controls. Once the engagement team has identified procurement fraud risks—such as conflicts of interest, fictitious vendors, bid manipulation, or improper payment approval—it needs to understand the controls management has designed and implemented to address those specific exposures. Mapping controls to the risks creates a clear risk-and-control relationship and supports a focused engagement work program. The team can then assess whether the controls are suitably designed, determine whether testing of their operating effectiveness is necessary, and evaluate the resulting residual risk. This sequence enables internal auditors to prioritize audit procedures in areas where fraud risk remains significant after controls are considered. It also supports engagement objectives and scope that are based on a documented understanding of the activity, its risks, and its relevant control processes. The IIA's Global Internal Audit Standards require engagement planning to consider relevant risks and controls and to develop procedures that achieve the engagement objectives. See the IIA Global Internal Audit Standards and the IIA's Global Technology Audit Guides and supplemental guidance.

QUESTION NO: 2

Which of the following documents should the chief audit executive review and approve?

1. Workpaper retention policy.

2. Audit committee meeting minutes.

3. Internal audit handbook.

4. Quarterly financial statements.

A. 1 and 2 only

B. 1 and 3 only

C. 2 and 4 only

D. 1, 3, and 4 only

ANSWER: B

Explanation:

1 and 3 only is correct. The chief audit executive is responsible for establishing, implementing, and maintaining the internal audit function's methodology, policies, and procedures. A workpaper retention policy is a core component of that methodology because it establishes how engagement documentation will be safeguarded, retained, accessed, and ultimately disposed of in accordance with organizational requirements and applicable laws or regulations. The chief audit executive should therefore review and approve this policy to support consistent, reliable documentation practices across the function.

Likewise, an internal audit handbook normally documents the internal audit function's operating approach, including its policies, procedures, quality expectations, and engagement practices. Because the handbook guides internal auditors in performing their work and supports conformance with the Global Internal Audit Standards, it requires chief audit executive oversight and approval. The IIA's standards place accountability on the chief audit executive for managing the internal audit function and ensuring that it has appropriate methodologies and processes. See the [IIA Global Internal Audit Standards]() and the IIA's [Standards resources]() for the governing framework.

QUESTION NO: 3

Which of the following describes (he primary reason why a preliminary risk assessment is conducted during engagement planning?

A. To identify the greatest risks organizationwide

B. To ensure that the engagement work program covers all risk areas

C. To ensure that risks identified during previous audits of the area have been adequately addressed

D. To ensure that significant risks are included in the engagement scope

ANSWER: D

Explanation:

To ensure that significant risks are included in the engagement scope is correct because preliminary risk assessment directs the engagement toward the risks most relevant to the activity's objectives, operations, governance, and control environment. Before detailed testing begins, the internal auditor considers available information about the area under review, including objectives, key processes, prior results, changes, fraud risks, and relevant stakeholder concerns. This enables the auditor to define a scope that is risk-based and appropriately focused, rather than attempting to review every possible area or control equally.

The assessment also provides the foundation for engagement objectives and for designing procedures that will generate sufficient, reliable, relevant, and useful information about the most significant exposures. The Global Internal Audit Standards require internal auditors to assess risks relevant to the activity under review and use that assessment to develop engagement objectives and scope. This planning approach supports efficient use of audit resources while ensuring the engagement addresses matters that could materially affect organizational objectives. See the IIA's [Global Internal Audit Standards]() and its [practice guides]() for engagement-planning guidance.

QUESTION NO: 4

Which of the following actions is related to the preliminary survey process?

A. Determining if controls are effective.

B. Preparing the engagement work program.

C. Identifying the current controls.

D. Completing a detailed test of controls.

ANSWER: C

Explanation:

Identifying the current controls is related to the preliminary survey because this early engagement-planning activity gives internal auditors a practical understanding of the area under review before detailed fieldwork begins. Through discussions with process owners, review of policies, procedures, reports, prior audit results, and process documentation, auditors identify how the process is intended to operate and which controls management has put in place to address relevant risks. This information helps define the engagement's scope and objectives, supports the initial risk assessment, and allows the audit team to focus subsequent procedures on the controls and risks that matter most.

The preliminary survey does not itself provide sufficient evidence to conclude on control effectiveness. Instead, it establishes the baseline understanding needed to design appropriate engagement procedures. The resulting knowledge of existing controls is then reflected in a risk-based work program that specifies the nature, timing, and extent of testing. The IIA's Global Internal Audit Standards require engagement planning to consider the activity's objectives, risks, and relevant controls, and require a documented work program to achieve the engagement objectives. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 5

Which of the following factors is least essential to a successful control self-assessment workshop?

A. Voting technology.

B. Facilitation training.

C. Prior planning.

D. Group dynamics.

ANSWER: A

Explanation:

Voting technology. is least essential because a control self-assessment workshop can be conducted successfully without electronic polling or similar tools. The purpose of a CSA workshop is to bring process owners and relevant stakeholders together to identify objectives, assess risks and controls, and develop a shared understanding of needed actions. Those outcomes depend principally on purposeful preparation, an effectively facilitated process, and constructive participant interaction. A facilitator may gather input and achieve consensus through structured discussion, flip charts, paper-based questionnaires, hand voting, or other simple methods when technology is unavailable or inappropriate for the group. Technology can improve efficiency, anonymity, or the speed of compiling responses, particularly for a large group or sensitive topics, but it is an enabling tool rather than a prerequisite for the workshop's success. Internal audit's professional guidance emphasizes planning and communicating engagement activities in a manner appropriate to the engagement's objectives and stakeholders; the methods used should support those objectives rather than be treated as mandatory. See The IIA's Global Internal Audit Standards and its Practice Guides for guidance on planning, communication, and engagement techniques.

QUESTION NO: 6

An internal auditor compared the number of human resources professionals per employee with industry standards. This comparison would assist the auditor in evaluating which of the following areas?

A. Sufficiency of controls over payroll rate increases.

B. Current level of performance of the human resources department.

C. Adequacy of controls over hiring new employees.

D. Degree of compliance with human resources policies.

ANSWER: B

Explanation:

"Current level of performance of the human resources department." is correct because the number of human resources professionals per employee is a staffing ratio that can be benchmarked against comparable organizations or industry standards. Such benchmarking provides a meaningful indicator of whether the department's resource deployment is broadly consistent with external norms and can help the auditor assess operational efficiency and effectiveness. For example, a significantly higher or lower ratio than the relevant benchmark may identify an area for further inquiry into workload, service capacity, process automation, organizational complexity, or the appropriateness of staffing levels. The comparison itself does not provide direct evidence about a particular transaction-level control; rather, it is an analytical measure used to evaluate how well an organizational function is performing. The Global Internal Audit Standards require internal auditors to use relevant, reliable, and sufficient information in evaluating engagement results and to apply appropriate analyses when performing engagement work. External benchmarks are a useful source of contextual information when they are comparable, current, and interpreted alongside the organization's specific circumstances. This ratio therefore assists the auditor in forming an evidence-based view of human resources department performance. See the IIA's [Global Internal Audit Standards] and the GAO's [Performance Measurement and Evaluation guide].

QUESTION NO: 7

Which of the following is most appropriate for internal auditors to do during the internal audit recommendations monitoring process?

A. Report the monitoring status to senior management when requested.

B. Assist management with implementing corrective actions.

C. Determine the frequency and approach to monitoring

D. Include all types of observations in the monitoring process

ANSWER: C

Explanation:

Determine the frequency and approach to monitoring is correct because follow-up must be designed as a risk-based, systematic activity rather than performed only on an ad hoc basis. Internal audit is responsible for establishing a method to monitor the disposition of engagement results and to determine whether management actions have been effectively implemented or whether senior management has accepted the risk of not acting. Setting the frequency and approach enables internal audit to tailor follow-up work to the significance, urgency, and risk exposure associated with recommendations. For example, high-risk matters may warrant prompt validation and reporting, while lower-risk matters may be reviewed through periodic status updates or the next scheduled engagement. This planning also helps preserve internal audit's independence: auditors evaluate and verify the status and effectiveness of corrective actions, rather than taking responsibility for implementing them. A defined monitoring approach should identify how status information is obtained, when implementation will be validated, how overdue actions and accepted risks are escalated, and how results are communicated. The IIA's Global Internal Audit Standards require the chief audit executive to establish a methodology for monitoring management's implementation of agreed actions or action plans. See the [IIA Global Internal Audit Standards] and the IIA's [Standards resources].

QUESTION NO: 8

An internal auditor found that the cost of some material installed on capital projects had been transferred to the inventory account because the capital budget had been exceeded. Which of the following would be an appropriate technique for the auditor to use to determine the extent of the problem?

A. Identify variances between amounts capitalized each month and the capital budget.

B. Analyze a sample of capital transactions each quarter to detect instances in which installed material was transferred to inventory.

C. Review all journal entries that transferred costs from capital to inventory accounts.

D. Compare inventory receipts with debits to the inventory account and investigate discrepancies.

ANSWER: C

Explanation:

Review all journal entries that transferred costs from capital to inventory accounts. is the appropriate technique because the objective is to determine the *extent* of a specifically identified misclassification pattern. The relevant population consists of journal entries moving amounts from capital-project accounts to inventory accounts. Reviewing that complete population allows the auditor to identify each transfer, quantify the total potentially misstated amount, determine the periods and projects affected, and establish whether the transfers were made when capital-budget limits were exceeded. The auditor can then trace the entries to supporting documentation, such as project records, material issue records, capitalization policies, approvals, and inventory records, to confirm that the material was installed and therefore should not have remained recorded as inventory. This provides sufficient, relevant, and reliable evidence for evaluating the magnitude of the accounting issue and for communicating its impact. The IIA's Global Internal Audit Standards require internal auditors to analyze relevant information to develop engagement findings and conclusions; examining the complete, directly relevant set of transfer entries is well aligned with that requirement. See the IIA Global Internal Audit Standards and the IAS 2 overview on inventories.

QUESTION NO: 9

An auditor-in-charge is preparing her audit team for a consulting engagement at one of the organization's foreign subsidiaries. According to the Standards, which of the following would not be a necessary step prior to beginning the engagement?

A. Verify that none of the audit team worked for the foreign subsidiary within the last year to ensure independence.

B. Agree, in writing, with the subsidiary's senior management regarding the scope of the engagement.

C. Communicate a time frame as well as a contingency plan in the event the engagement may take longer than expected.

D. Communicate what logistical support will be provided by the subsidiary for the duration of the engagement.

ANSWER: A

Explanation:

"Verify that none of the audit team worked for the foreign subsidiary within the last year to ensure independence." is not a necessary pre-engagement step for a consulting engagement. The one-year restriction historically applied when an internal auditor performed an *assurance* engagement over an activity for which that auditor had prior responsibility. Consulting services have a different objectivity consideration: internal auditors may provide advice regarding operations for which they previously had responsibility, provided that actual, potential, or perceived impairments to objectivity are identified and appropriately disclosed and managed.

Accordingly, prior employment or prior operational responsibility at the subsidiary does not automatically prevent an auditor from participating in the consulting work, nor does it create a mandatory requirement to exclude every team member who worked there within the preceding year. The auditor-in-charge should instead assess the specific circumstances, such as whether a team member has a personal interest, management responsibility, or other relationship that could impair unbiased professional judgment, and ensure any relevant impairment is addressed before work begins. This approach supports the internal audit function's obligation to preserve objectivity while permitting valuable consulting services. The IIA's Global Internal Audit Standards address safeguarding objectivity and communicating impairments, and the IIA's Standards resource page provides the applicable professional framework.

QUESTION NO: 10

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 advisory assistance intended to help management improve how it identifies, assesses, and responds to risk. Consulting services may include advice, facilitation, training, and other collaborative activities that add value and improve governance, risk management, and control processes. In this case, the internal auditor is sharing relevant risk-management knowledge with managers so they can incorporate suitable processes into their own operational responsibilities. Management retains ownership of the processes, decisions, and implementation; the auditor's role is to advise rather than manage the activity. This distinction supports internal audit independence and objectivity while allowing the function to contribute constructively to organizational improvement. The Global Internal Audit Standards describe internal auditing as providing assurance, advice, insight, and foresight, and recognize consulting services as advisory in nature and generally performed at the request of stakeholders. The engagement should be appropriately defined, including its objectives, scope, responsibilities, and safeguards for independence. See the IIA's Global Internal Audit Standards and its International Professional Practices Framework.

QUESTION NO: 11

A chief audit executive agrees to conduct an engagement that will focus on customers' perceptions of the quality of the organization's products and services. Which of the following issues should be addressed first?

A. Cost-effectiveness.

B. Quality control.

C. Customer complaints.

D. Supplier deliveries.

ANSWER: C

Explanation:

Customer complaints. is the appropriate issue to address first because complaints are direct, customer-originated evidence of perceived gaps between expected and received product or service quality. They provide an immediate basis for identifying the issues that matter most to customers, such as recurring defects, service delays, unclear communication, unmet commitments, or ineffective resolution processes. The audit team can analyze complaint volumes, themes, severity, channels, resolution times, repeat complaints, escalation patterns, and management's root-cause analysis. This information helps establish a risk-based engagement scope and supports audit objectives focused on the effectiveness of controls over customer experience and quality-related feedback.

The Global Internal Audit Standards require internal auditors to plan engagements by understanding the activity under review and assessing relevant risks, including the risks that could affect the achievement of its objectives. For an engagement centered on customer perceptions, the organization's complaint data and its response process are especially relevant inputs to that understanding and risk assessment. Reviewing this evidence first also enables the auditors to target subsequent testing toward the customer issues with the greatest impact. See the IIA's Global Internal Audit Standards and ISO's overview of ISO 10002 customer-satisfaction complaint handling guidance.

QUESTION NO: 12

Which of the following performance measures is considered a lagging indicator to the largest degree?

A. Return on investment

B. Customer retention

C. Employee satisfaction

D. Cost of research and development

ANSWER: A

Explanation:

Return on investment is the performance measure that is lagging to the greatest degree because it reports the financial return ultimately realized from investment decisions and related operations. Calculating ROI requires results that have already occurred, such as revenues or benefits generated and the costs incurred to obtain them. It therefore evaluates historical performance rather than directly signaling whether future results will be achieved. In internal auditing, this distinction is important when assessing whether management's performance measurement framework supplies both outcome measures and information that can support timely action. ROI is useful for evaluating the economy and effectiveness of completed or substantially completed initiatives, strategic investments, or business activities, and for comparing realized financial outcomes against expectations. The IIA's Global Internal Audit Standards emphasize evaluating the effectiveness of governance, risk management, and control processes; reliable performance information, including measures of achieved results, can support that evaluation. The IIA also identifies performance measures as an important means of monitoring progress and results. See the IIA Global Internal Audit Standards and the IIA Standards and Guidance resources.

QUESTION NO: 13

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 presents risk management as an approach that organizations can tailor to their particular purpose, context, structure, and decision-making needs. It is not a prescriptive, one-size-fits-all management system requiring a large enterprise structure or a fixed set of departments, committees, or documentation. Instead, an organization integrates risk management into its governance, strategy, planning, reporting, policies, values, and culture in a manner appropriate to its circumstances.

This adaptability is central to the standard's value: a small organization can use proportionate processes and resources while still applying the same core principles, such as creating and protecting value, being integrated into organizational activities, and supporting informed decisions. The scale and complexity of implementation may differ, but the framework remains relevant and usable. ISO describes ISO 31000 as providing principles, a framework, and a process that can be used by organizations to manage risk, and notes that it can be used by any organization regardless of size, activity, or sector. See the ISO 31000 risk management overview and the ISO 31000:2018 standard page.

QUESTION NO: 14

An accounts payable clerk has recently transferred into the internal audit activity and has been assigned to an engagement related to accounts payable processes for which he was previously responsible Which of the following is the best action for the new internal auditor to take?

A. If it is an assurance engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value

B. If it is a consulting engagement, decline the assignment and ask to be reassigned, because in a consulting engagement the auditor must not assess operations for areas in which they were previously responsible.

C. If it is a consulting engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value, provided the potential impairment is disclosed.

D. If it is an assurance engagement, accept the assignment because the chief audit executive had knowledge of the internal auditor ' s previous role when this engagement was assigned.

ANSWER: C

Explanation:

If it is a consulting engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value, provided the potential impairment is disclosed. This is appropriate because the restriction on auditing operations for which an internal auditor had previous responsibility is specifically directed at assurance engagements, generally for one year after the responsibility ended. Consulting engagements have a different purpose: they are advisory in nature and are performed at the request of the client. The auditor's recent operational experience can therefore be useful in identifying practical process improvements, control considerations, and efficient solutions. Even so, the auditor must remain objective and must not assume management responsibility. The prior accounts-payable role creates a potential impairment to individual objectivity, so the relevant facts should be disclosed to the consulting-engagement client before accepting the work. Transparency enables the client and the chief audit executive to evaluate whether safeguards, such as supervision or a modified scope, are needed. This approach follows the IIA's requirements on impairments and its recognition that consulting services may be performed in areas where auditors previously held responsibility, subject to disclosure. See the IIA's Standard 1130 guidance and the IIA Global Internal Audit Standards.

QUESTION NO: 15

An audit client responded to recommendations from a recent consulting engagement. The client indicated that several recommended process improvements would not be implemented. Which of the following actions should the internal audit activity take in response?

A. Escalate the unresolved issues to the board, because they could pose significant risk exposures to the organization.

B. Confirm the decision with management and document this decision in the audit file.

C. Document the issue in the audit file and follow up until the issues are resolved.

D. Initiate an assurance engagement on the unresolved issues.

ANSWER: B

Explanation:

Confirm the decision with management and document this decision in the audit file. In a consulting engagement, internal audit provides advisory services intended to help management improve governance, risk management, controls, or processes, but management retains responsibility for deciding whether and how to implement recommendations. The internal audit activity should ensure that the client's decision is understood, including the relevant risk acceptance or business rationale where appropriate, and retain adequate engagement documentation showing the advice provided and management's response. This supports accountability, preserves a clear record of the engagement, and helps the chief audit executive consider the information in future risk-based planning.

The Global Internal Audit Standards emphasize that internal auditors must communicate engagement results appropriately and maintain sufficient documentation supporting conclusions and communications. Consulting work is performed in accordance with mutually agreed objectives and scope, and its results do not transfer management responsibility to internal audit. Recording management's informed decision is therefore the appropriate professional response when the client elects not to adopt suggested process improvements. See the IIA's Global Internal Audit Standards and its guidance resources on applying the Standards.

QUESTION NO: 16

Which of the following structures would best suit a maintenance organization that needs to adapt quickly to rapidly changing technology?

A. Traditional

B. Decentralized

C. Centralized

D. Customer-centric

ANSWER: B

Explanation:

Decentralized is correct because it places operational authority and technical decision-making closer to the people performing maintenance and supporting the technology. When technology changes rapidly, local maintenance units can identify emerging needs, evaluate equipment or process changes, obtain specialized expertise, and adjust work practices without waiting for multiple layers of central approval. This shorter decision path improves responsiveness and helps ensure that maintenance knowledge remains closely connected to the specific systems, users, and operating conditions involved. A decentralized design can also encourage technical specialization and accountability at the level where issues arise, allowing the organization to react to new technologies, changing service requirements, and equipment updates more quickly. From an internal-control and governance perspective, decentralization should still operate within clear enterprise policies, defined authority limits, reporting mechanisms, and oversight so that local flexibility remains aligned with organizational objectives. The IIA recognizes that governance arrangements include organizational structures, authority, and responsibilities, which should support achievement of objectives; structure should therefore fit the organization's environment and needs. See The IIA's Global Internal Audit Standards and COSO's Internal Control guidance.

QUESTION NO: 17

Which of the following should be included in a company ' s year-end inventory valuation?

A. Company goods that were sold during the year, free on board shipping point, that have been shipped but not yet received by the customer

B. Goods purchased by the company, free on board destination, that have not yet been received.

C. Goods on consignment, which the company is trying to sell for its customers.

D. Company goods for sale on consignment at a consignment shop

ANSWER: D

Explanation:

Company goods for sale on consignment at a consignment shop should be included in the company's year-end inventory valuation because the company retains ownership of the goods until they are sold to the final customer. The consignment shop acts as an agent that holds and attempts to sell the merchandise; physical possession at the shop does not transfer title to the shop. Therefore, at the reporting date, the consignor continues to control the unsold merchandise and bears the relevant inventory risks, such as damage, obsolescence, or a decline in net realizable value. The company must include those unsold goods in its inventory count or otherwise obtain reliable confirmation of their quantity and condition at the consignee's location. Their cost is then included in inventory, subject to the applicable lower-of-cost-and-net-realizable-value assessment. This treatment supports the core inventory assertion that the year-end balance includes items owned by the entity, whether held at its own premises or by a third party. IAS 2 describes inventory measurement requirements, including measurement at the lower of cost and net realizable value; see IAS 2 Inventories. The FASB Accounting Standards Codification is available at FASB ASC.

QUESTION NO: 18

Which of the following is essential for ensuring that the internal audit activity ' s findings and recommendations receive adequate consideration?

A. Reporting results of audits with recommendations to management.

B. Providing formal follow-up procedures to ensure that management complies with an action plan or accepted risk of not taking action.

C. Reporting quarterly to management that the audit plan is focused on higher exposures of risk.

D. Discussing audit findings with independent auditors.

ANSWER: B

Explanation:

Providing formal follow-up procedures to ensure that management complies with an action plan or accepted risk of not taking action is essential because issuing an audit report alone does not demonstrate that results have been addressed. A structured follow-up process enables the chief audit executive to track management's agreed actions, obtain status information and supporting evidence, and assess whether the actions were implemented effectively and resolved the underlying issue. It also provides a clear mechanism for documenting circumstances in which management elects not to implement an action. In that case, the relevant risk should be explicitly understood and accepted at the appropriate level of management rather than remaining unresolved by default. This process promotes accountability, keeps significant issues visible, and gives the board and senior management reliable information about the disposition of engagement results. The requirement reflects the longstanding IIA monitoring-progress principle and is expressed in the current Global Internal Audit Standards through requirements for monitoring management action plans and communicating the status of significant risks. See the IIA's Global Internal Audit Standards and its 2017 International Standards for the Professional Practice of Internal Auditing, including the former Standard 2500, Monitoring Progress.

QUESTION NO: 19

The internal auditor's opinion in terms of due professional care should be:

A. Limited to the effectiveness of internal controls.

B. Expressed only when consensus with top management has been achieved.

C. Based on experience and free of all bias.

D. Based on sufficient factual evidence.

ANSWER: D

Explanation:

An internal auditor's opinion should be based on sufficient factual evidence. Due professional care requires auditors to apply the care and skill expected of a reasonably prudent and competent internal auditor, including obtaining, evaluating, and documenting information adequate to support engagement conclusions and results. An opinion is therefore not merely an expression of personal experience or judgment; professional judgment must be grounded in relevant, reliable, and sufficient evidence gathered through appropriate engagement procedures.

The Global Internal Audit Standards require internal auditors to exercise due professional care by considering the nature, circumstances, and requirements of the work, and they require engagement conclusions to be supported by relevant, reliable, and sufficient information. This evidence-based foundation enables the auditor to communicate conclusions objectively and gives stakeholders a reasonable basis for relying on the opinion. The appropriate amount and type of evidence depends on engagement objectives, scope, risks, and the significance of the matters evaluated, but the final opinion must always have factual support. See the IIA's Global Internal Audit Standards and its Standards resource page.

QUESTION NO: 20

During an audit of a branch bank, an internal auditor learned that a series of system failures had resulted in a four-day delay in processing customers' scheduled payroll direct deposits. The first failure was that of a disk drive, followed by software and other minor failures. Which of the following controls should the auditor recommend to avoid similar delays in processing?

A. Contingency planning.

B. Redundancy checks.

C. Process monitoring.

D. Preventive maintenance.

ANSWER: A

Explanation:

Contingency planning. is correct because the primary control objective is to maintain or rapidly restore critical payroll-deposit processing when normal systems fail. A contingency plan establishes documented, tested procedures for responding to disruptions, activating alternate systems or facilities, restoring data and applications from backups, assigning responsibilities, and communicating with affected parties. For a bank, scheduled payroll deposits are a time-sensitive, customer-critical service; therefore, the plan should define recovery-time objectives that enable processing to continue or resume before a multiday interruption occurs.

The fact pattern describes multiple failures rather than a single isolated fault. Effective contingency planning addresses this broader operational-resilience risk by preparing the organization to continue essential business processes despite combinations of hardware, software, and related operational incidents. It also requires regular testing and updating so that personnel can execute recovery procedures under real conditions, rather than merely relying on an untested document. This approach supports management's responsibility to ensure business continuity and resilient service delivery. The FFIEC's guidance describes business continuity planning as the process of preparing for and recovering from disruptions to critical operations; see the FFIEC Business Continuity Management booklet. Related contingency-planning guidance is available in NIST SP 800-34 Rev. 1.

QUESTION NO: 21

According to IIA guidance, which of the following describes the primary reason the chief audit executive (CAE) should actively network and build relationships with senior management and the board?

A. To fulfill the CAE ' s responsibility to keep the board appropriately informed.

B. To expand the CAE ' s understanding of management issues.

C. To help maintain the objectivity of the internal audit activity.

D. To increase opportunities to demonstrate the internal audit activity performance.

ANSWER: A

Explanation:

To fulfill the CAE ' s responsibility to keep the board appropriately informed. is correct because a strong, professional relationship with senior management and the board enables the chief audit executive to communicate candidly, promptly, and effectively about the internal audit function's mandate, plans, performance, significant engagement results, risk exposures, control concerns, and resource needs. Networking in this context is not merely social or promotional; it establishes the access, trust, and mutual understanding needed for meaningful two-way communication and appropriate board oversight. The CAE must understand the board's expectations and information needs while ensuring the board receives the information necessary to oversee governance, risk management, and control. Regular interaction also helps the CAE preserve a direct communication channel to the board, which is essential when significant matters require escalation. The IIA's Global Internal Audit Standards emphasize that the CAE must establish a relationship with the board and provide it with information needed to fulfill its oversight responsibilities. This relationship supports the internal audit activity's organizational independence and its ability to deliver timely assurance and advice. See The IIA's 2024 Global Internal Audit Standards, particularly the requirements addressing board interaction and communication, and The IIA Standards resources.

QUESTION NO: 22

An internal auditor accessed accounts payable records and extracted data related to fuel purchased tor the organization's vehicles As a first step, she sorted the data by vehicle and used spreadsheet functions to identify all instances of refueling on the same or sequential dates She then performed other tests Based on the auditor's actions which of the following is most likely the objective of this engagement1?

A. To identify whether fuel was purchased for work-related purposes

B. To estimate future fuel costs for the organization's fleet of vehicles

C. To determine trends in average fuel consumption by vehicle

D. To determine whether the organization is paying more than the industry average for fuel

ANSWER: A

Explanation:

To identify whether fuel was purchased for work-related purposes is the most likely objective. Sorting fuel transactions by vehicle and flagging refueling that occurs on the same date or on consecutive dates is an analytical procedure designed to identify unusual usage patterns. Such patterns can indicate that a vehicle was fueled more frequently than operationally necessary, potentially pointing to nonbusiness use, unauthorized purchases, misuse of fuel cards, or other exceptions requiring follow-up. The auditor's subsequent tests would ordinarily develop and evaluate those exceptions using supporting evidence, such as vehicle assignment records, trip logs, mileage, fuel-card receipts, driver schedules, fuel-tank capacity, and approval documentation. This approach is consistent with an internal auditor's responsibility to apply appropriate methodologies and analyze information sufficient to support engagement conclusions. The initial spreadsheet analysis does not itself establish misuse; rather, it efficiently identifies transactions that warrant investigation in relation to the business purpose of the purchases. The IIA Global Internal Audit Standards require auditors to identify, collect, and analyze relevant, reliable, and sufficient information when performing engagement work. See The IIA Global Internal Audit Standards and The IIA Standards and Guidance.

QUESTION NO: 23

Senior IT management requests the internal audit activity to perform an audit of a complex IT area. The chief audit executive (CAE) knows that the internal audit activity lacks the expertise to perform the engagement. Which of the following is the most appropriate action for the CAE to take?

A. Decline the audit engagement, because the Standards prohibit internal auditors from performing engagements where they lack the necessary competencies.

B. Accept the audit engagement and use the engagement as an opportunity to develop the audit team ' s IT expertise while performing the audit work.

C. Temporarily hire an experienced and knowledgeable IT analyst from the organization ' s IT department to lead the audit.

D. Outsource the audit engagement to a reputable IT audit consulting firm.

ANSWER: D

Explanation:

Outsource the audit engagement to a reputable IT audit consulting firm. The CAE is responsible for ensuring that internal audit engagements are performed with the competencies needed to achieve their objectives. A complex IT area may require specialized technical knowledge that the internal audit activity does not possess, such as expertise in infrastructure, cybersecurity, systems implementation, cloud environments, or data analytics. Obtaining qualified external assistance enables the engagement to be performed with appropriate proficiency while preserving the quality, due professional care, and credibility expected of internal audit work.

The CAE should select a provider whose personnel have relevant technical qualifications, experience, and sufficient resources for the engagement. The CAE also remains accountable for the internal audit activity and should establish clear engagement objectives, evaluate the provider's competence and objectivity, oversee the work performed, and ensure that conclusions are adequately supported. This approach aligns with the Global Internal Audit Standards' requirement that the CAE ensure the internal audit activity has, or obtains, the knowledge, skills, and other competencies necessary to perform its services. See the IIA's Global Internal Audit Standards and its guidance on supplemental guidance.

QUESTION NO: 24

Audit supervision includes approval of the engagement report in order to ensure that:

A. The client's objectives are met.

B. Senior management supports the report's conclusions.

C. Report style and grammar are appropriate.

D. Report findings are substantiated.

ANSWER: D

Explanation:

"Report findings are substantiated." is correct because supervisory review and approval of an engagement report provide assurance that the report accurately reflects the work performed and that its conclusions, findings, and recommendations are supported by sufficient, reliable, relevant, and useful information. Before issuance, the engagement supervisor reviews the report for appropriate evidence, sound professional judgments, clear communication, and consistency with the engagement objectives and applicable methodology. This approval is an important quality-control activity: it confirms that reported matters have an adequate basis in documented audit evidence and that the communication can be relied on by management and the board. The Global Internal Audit Standards require internal auditors to document relevant, reliable, and sufficient information to support engagement results and conclusions, and require the chief audit executive to establish quality assurance processes for engagement performance. Approval of the final communication is therefore not merely an editorial review; it is a formal confirmation that the report's substantive content is properly supported by the engagement workpapers and evidence. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 25

While reviewing the workpapers and draft report from an audit engagement, the chief audit executive (CAE) found that an Important compensating control had not been considered adequately by the audit team when it reported a major control weakness Therefore, the CAE returned the documentation to the auditor in charge for correction Based on this Information, which of the following sections of the workpapers most likely would require changes?

1.Effect of the control weakness.

2.Cause of the control weakness

3.Conclusion on the control weakness.

4.Recommendation for the control weakness.

A. 1, 2, and 3.

B. 1.2. and 4

C. 1,3, and 4.

D. 2, 3, and 4.

ANSWER: C

Explanation:

The correct selection is **"1,3, and 4."** A compensating control is an alternative control activity that reduces the likelihood or impact of a risk when the primary control is absent, inadequately designed, or not operating effectively. Once the audit team evaluates an important compensating control, it must reassess the *effect* of the reported weakness. The residual exposure, potential consequences, and significance of the condition may be less than initially documented.

That reassessment also directly affects the engagement *conclusion*. Internal auditors are expected to base conclusions on relevant, reliable, and sufficient information, including the overall evaluation of the control environment and controls that mitigate the identified risk. If the compensating control sufficiently addresses all or part of the exposure, the conclusion that a major weakness exists may need to be modified, qualified, or supported with more precise wording.

Finally, the *recommendation* should be reconsidered because recommendations are intended to address the underlying risk and improve control effectiveness. Recognition of an effective compensating control may change the needed corrective action, its priority, or whether enhancement rather than a wholly new control is appropriate. This treatment is consistent with the IIA's requirements for evidence-based engagement conclusions and communications in the Global Internal Audit Standards and related guidance on internal audit practice guides.

QUESTION NO: 26

The chief risk officer (CRO) of a large manufacturing organization decided to facilitate a workshop for process managers and staff to identify opportunities for improving productivity and reducing defects. Which of the following is the most likely reason the CRO chose the workshop approach?

A. It minimizes the amount of time spent and cost incurred to gather the necessary information.

B. Responses can be confidential, thus encouraging participants to be candid expressing their concerns.

C. Workshops do not require extensive facilitation skills and are therefore ideal for nonauditors.

D. Workshop participants have an opportunity to learn while contributing ideas toward the objectives.

ANSWER: D

Explanation:

"Workshop participants have an opportunity to learn while contributing ideas toward the objectives." is correct because a facilitated workshop brings together people with direct knowledge of a process and enables them to develop a shared understanding while identifying improvement opportunities. Process managers and staff can contribute practical observations about causes of defects, workflow bottlenecks, controls, resources, and possible productivity improvements. At the same time, discussion with colleagues and the facilitator helps participants understand the broader process, the relationship between risks and objectives, and the perspectives of other functions.

This collaborative learning is especially valuable in a manufacturing environment, where productivity and quality outcomes commonly depend on handoffs and interactions across roles. A workshop can therefore both generate useful ideas and strengthen ownership of the resulting actions because participants have helped define the issues and potential improvements. ISO 31000 emphasizes communication and consultation with stakeholders throughout risk-management activities, supporting an inclusive approach that uses relevant knowledge and views. The IIA's Global Internal Audit Standards likewise recognize the value of engaging appropriate stakeholders and obtaining relevant information to support sound conclusions. See ISO 31000 Risk Management and The IIA Global Internal Audit Standards.

QUESTION NO: 27

An internal auditor is planning an audit engagement of a subsidiary organization. The auditor learns that a corporate investigator from the holding organization is investigating the subsidiary regarding a fraud case. Which of the following is true regarding the scope of the internal auditorâ€™s engagement?

A. As the fraud is already being investigated by the corporate investigator, it should be excluded from the scope of the audit engagement

B. The engagement should be framed as an advisory engagement to support the corporate investigator ' s work

C. The area under investigation should be excluded from the engagement scope if the auditor does not have the technical skills required to support a fraud investigation

D. The scope should consider the nature of the fraud risk and control weaknesses identified from the fraud case

ANSWER: D

Explanation:

The scope should consider the nature of the fraud risk and control weaknesses identified from the fraud case. In planning an engagement, internal auditors use a risk-based approach to establish objectives and scope. A current fraud investigation is highly relevant risk information: it may indicate deficiencies in governance, risk management, internal controls, ethical culture, segregation of duties, monitoring, or escalation processes. The internal auditor does not need to duplicate the investigator's work or determine whether particular individuals committed fraud. Instead, the audit can use available, appropriately shared information from the case to assess the underlying conditions and control gaps that may have enabled the event, as well as whether management's corrective actions are suitably designed and implemented. The final scope should also account for the investigation's status, confidentiality requirements, legal considerations, and coordination needs, so that audit procedures do not interfere with evidence preservation or the investigation. This approach helps the internal audit activity provide assurance on systemic risks while maintaining its independent role and applying due professional care. The Global Internal Audit Standards require engagement planning to be based on a documented assessment of relevant risks and emphasize considering the potential for fraud when assessing risks. See the IIA's Global Internal Audit Standards and its Internal Audit and Fraud practice guidance.

QUESTION NO: 28

A chief audit executive's report to the board showed a significant trend of recent audits going over planned budgeted hours. Which of the following factors could cause this trend?

A. Poor engagement supervision.

B. Ineffective board reporting.

C. Untimely observation follow up and closure.

D. Limited staff resources.

ANSWER: A

Explanation:

Poor engagement supervision can directly cause a recurring pattern of audits exceeding their planned hours. Engagement supervision includes directing the work, reviewing progress, monitoring whether work is being performed efficiently, and ensuring that the engagement team remains focused on approved objectives and scope. A supervisor should compare actual time used with the engagement budget throughout the work, identify emerging overruns early, and take appropriate action, such as resolving obstacles, reallocating work, clarifying procedures, or obtaining authorization for a justified scope or budget change. When this oversight is weak, inefficient work practices, unnecessary testing, unresolved issues, and scope expansion may continue without timely correction. The result can be repeated budget overruns across multiple engagements, which would become visible in the chief audit executive's reporting to the board. Effective supervision also provides feedback that improves future engagement planning and estimating. The IIA's Global Internal Audit Standards emphasize that engagement work must be properly planned, managed, and supervised to achieve objectives efficiently and with appropriate resource use. See the IIA Global Internal Audit Standards and the IIA's Standards and Guidance resources.

QUESTION NO: 29

An internal auditor was assigned to review controls in the accounts payable function. Most of tie accounts payable processes are performed by a third-party service provider. The auditor included in the audit report a number of control deficiencies involving processes performed by the service provider. The service provider requested a copy of the report Which of Vie following would be the most appropriate response from the chief audit executive (CAE)?

A. The CAE would automatically send a copy of the report to the service provider, as many of the findings relate to the area managed by the service provider.

B. The CAE may distribute the report to the service provider at no cost, after consulting with legal counsel and the chief compliance officer.

C. The CAE may provide a copy of the audit report to the service provider if an agreement is signed and the service provider agrees to reimburse the cost of the audit.

ANSWER: B

Explanation:

The CAE may distribute the report to the service provider at no cost, after consulting with legal counsel and the chief compliance officer. Because the engagement results include deficiencies in controls operated by the provider, sharing relevant results can support prompt remediation and appropriate accountability for the outsourced process. However, an internal audit report is confidential organizational information and may contain sensitive details, including control design information, business data, and conclusions that could have legal, contractual, regulatory, or reputational implications. The CAE should therefore not release it automatically. Consultation with legal counsel and the chief compliance officer helps determine whether disclosure is permitted under the service contract, confidentiality provisions, applicable regulation, and the organization's information-sharing requirements. It also helps establish whether the full report or only relevant portions should be shared and whether any safeguards are required. The IIA's Global Internal Audit Standards require the CAE to communicate final engagement results to appropriate parties and to consider risks before releasing results outside the organization. Providing the report without charging the provider is appropriate because the purpose of release is to support governance, risk management, and corrective action—not to recover audit costs. See IIA Global Internal Audit Standards and IIA Mandatory Guidance.

QUESTION NO: 30

According to IIA guidance, which of the following objectives was most likely formulated for a non-assurance engagement?

A. The internal audit activity will assess the effects of changes in maintenance strategy on the availability of production equipment.

B. The internal audit activity will inform management on the possible risks of moving the data warehouse to a cloud server maintained by a third party.

C. The internal audit activity will ascertain whether the data center security arrangements are compliant with agreed terms.

D. The internal audit activity will ensure equipment downtime risks have been managed in accordance with internal policy.

ANSWER: B

Explanation:

The internal audit activity will inform management on the possible risks of moving the data warehouse to a cloud server maintained by a third party. This objective is characteristic of a non-assurance, or consulting, engagement because it is framed as providing advice and insight to support management's decision-making. Moving a data warehouse to a third-party cloud provider can introduce risks involving security, privacy, availability, contractual responsibilities, regulatory requirements, data ownership, and vendor oversight. Internal audit can use its knowledge of governance, risk management, and controls to identify and communicate those considerations before management proceeds with the initiative.

Under the IIA Global Internal Audit Standards, advisory services are generally performed at the request of stakeholders and are intended to provide advice, facilitate understanding, or support improvement, while management retains responsibility for decisions and for managing risks. An objective to inform management of possible risks therefore describes an advisory role rather than an engagement designed to reach an independent conclusion on whether an existing process, control, or arrangement is adequate or compliant. The engagement can add value early in a significant change without internal audit assuming management responsibility for the cloud migration or its controls. See the IIA's Global Internal Audit Standards and its Standards and guidance resources.

QUESTION NO: 31

Production managers for a manufacturing company are authorized to prepare emergency purchase orders for raw materials. These manually prepared orders do not go through the purchasing department and do not require a receiving report. The managers forward the invoice and purchase order to the accounting department for payment. Which of the following internal controls would efficiently prevent abuse of this system?

A. Institute a company policy requiring rotation of orders among several suppliers.

B. Require a manual receiving report from the warehouse prior to payment.

C. Forbid the use of emergency purchase orders.

D. Review the level of safety stock.

ANSWER: B

Explanation:

Require a manual receiving report from the warehouse prior to payment. This control establishes independent evidence that the raw materials ordered were actually received before accounts payable releases funds. In the described emergency process, a production manager can initiate an order and submit both the purchase order and invoice for payment without the normal purchasing review or receiving documentation. Requiring the warehouse, which has physical custody of incoming goods, to prepare a receiving report creates a key segregation of duties: the person requesting the purchase does not also provide the evidence used to authorize payment. Accounts payable can then perform a three-way match among the emergency purchase order, supplier invoice, and warehouse receiving report. This helps ensure that payment is limited to authorized quantities of goods actually delivered, reducing exposure to fictitious vendors, personal purchases, duplicate billing, and payment for undelivered materials. The control is efficient because it preserves the ability to use emergency orders while adding verification at the point where payment is authorized, rather than eliminating the expedited purchasing process. The IIA's standards emphasize evaluating the adequacy and effectiveness of controls in responding to risks, including controls over processes and information. See IIA Global Internal Audit Standards and GAO Standards for Internal Control in the Federal Government.

QUESTION NO: 32

The chief audit executive (CAE) is adding a new audit position to the team. According to the International Professional Practices Framework, which of the following candidates would the CAE be least likely to accept for the position?

A. The candidate is applying for an IT audit position, while originally coming from an IT background, but has only experiences of financial and compliance audits in the previous position.

B. The candidate is knowledgeable about potential indicators of fraud including typical risks, but has only participated as a staff auditor in one investigative fraud audit.

C. The candidate meets the minimum educational requirements established by the chief audit executive, but has less formal education than any of the other candidates being considered.

D. The candidate provides examples of previous reports demonstrating excellent writing skills, but lacks ability to clearly communicate ideas and conclusions in a meeting.

ANSWER: D

Explanation:

The candidate who provides examples of previous reports demonstrating excellent writing skills, but lacks ability to clearly communicate ideas and conclusions in a meeting is the candidate the CAE would be least likely to accept. Internal audit work requires more than producing well-written documentation. Auditors must communicate engagement objectives, observations, risks, conclusions, and recommendations effectively with clients, management, and other stakeholders throughout an engagement. This includes explaining often complex matters clearly in meetings, responding constructively to questions, and supporting the audit team's conclusions in oral discussions.

The IPPF competency expectations require internal auditors to possess the knowledge, skills, and other competencies needed to perform their responsibilities. Communication is a core professional skill because engagement results must be understood by those responsible for acting on them. A material inability to communicate ideas and conclusions verbally would impair the auditor's effectiveness in conducting interviews, discussing issues before reporting, facilitating agreement on factual accuracy, and presenting final results. Strong writing is valuable, but it does not replace the ability to communicate clearly in person. The CAE is responsible for ensuring the internal audit function is staffed with personnel whose collective competencies support effective engagement performance. See the IIA's Global Internal Audit Standards and its standards resources.

QUESTION NO: 33

When performing a compliance audit of the organization's outsourced services, which of the following is considered the primary engagement objective?

A. Verifying that the organization does not have the appropriate knowledge and resources in-house.

B. Ensuring the provider has adequate internal controls in order to protect the quality of their service.

C. Evaluating the efficiency, effectiveness, economy, and sufficiency of the services provided.

D. Assessing the provider's adherence to contract and regulatory requirements.

ANSWER: D

Explanation:

Assessing the provider's adherence to contract and regulatory requirements is the primary objective because a compliance audit determines whether activities conform to the specific requirements that govern them. For outsourced services, those requirements are primarily established in the service contract, service-level agreements, applicable laws and regulations, and any relevant organizational policies incorporated into the arrangement. The engagement should therefore obtain sufficient evidence that the provider is meeting its contractual obligations, such as required service levels, reporting, security, privacy, record-retention, audit-access, and incident-notification provisions, as well as obligations imposed by regulators. This focus is especially important because management retains accountability for risks and obligations associated with outsourced activities even when the provider performs the underlying process. The audit objective gives the engagement a clear basis for defining scope, selecting criteria, testing evidence, and communicating any instances of nonconformance that require remediation or escalation. The IIA's Global Internal Audit Standards require internal auditors to establish engagement objectives and evaluate whether governance, risk management, and control processes are designed and operating effectively. In a compliance engagement, contractual and regulatory criteria provide the appropriate benchmark for that evaluation. See the IIA Global Internal Audit Standards and the IIA's practice guides.

QUESTION NO: 34

Which of the following methods would an auditor most likely use to document a complex sales order process?

A. Develop a horizontal flowchart, with supporting documentation for key control points.

B. Create a critical path method chart, noting the processes involved for each step.

C. Perform a process review, assigning time and cost to each step of the process to develop a hierarchy flowchart.

D. Utilize a systems narrative, which can be updated during subsequent audits.

ANSWER: A

Explanation:

Develop a horizontal flowchart, with supporting documentation for key control points, is the most appropriate method because it presents a complex end-to-end sales order process visually across the organizational functions or departments that perform each activity. The horizontal layout makes handoffs—such as those among sales, credit, order entry, warehousing, shipping, billing, and accounts receivable—clear and allows the auditor to trace the movement of orders, documents, information, and approvals through the process.

This documentation technique also helps the auditor identify where key controls operate, who performs them, the evidence they produce, and whether segregation of duties is appropriately designed. Supporting documentation for the identified control points can then capture the control objective, responsible party, frequency, relevant system report or record, and audit evidence. This combination provides a useful basis for assessing process design, identifying risks, developing audit procedures, and communicating process understanding to the engagement team. The IIA's standards require internal auditors to document sufficient, reliable, relevant, and useful information supporting engagement results; a clear process flowchart is an effective way to organize such process and control information. See the IIA Global Internal Audit Standards and the IIA's guidance resources.

QUESTION NO: 35

The audit manager asked the internal auditor to perform additional testing because several irregularities were found in the financial information. Which of the following would be the most appropriate analytical review for the auditor to perform?

A. Compare the firm's financial performance with organizations in the same industry

B. Interview all managers involved in preparing the financial statements

C. Perform a bank reconciliation to confirm the cash balance in the financial statements.

D. Trace each financial transaction to the original supporting document

ANSWER: A

Explanation:

Compare the firm's financial performance with organizations in the same industry is the most appropriate analytical review because analytical procedures evaluate financial information by examining plausible relationships among financial and nonfinancial data. Benchmarking the organization's results against relevant industry peers can identify unusual trends, ratios, margins, growth rates, or cost patterns that merit further audit investigation. For example, a material divergence in receivables turnover, gross margin, or operating expenses from comparable entities may help the auditor focus additional testing on the accounts, processes, or transactions most likely associated with the identified irregularities.

This approach is particularly useful at the engagement level because it provides a broad, independent point of comparison rather than merely reperforming an individual control or examining individual transactions. The comparison should use organizations with suitably similar business models, markets, accounting bases, and operating conditions, and the auditor should investigate significant unexplained differences. This is consistent with the Global Internal Audit Standards' requirement that internal auditors analyze relevant information to develop engagement conclusions and with the CIA Part Two syllabus coverage of analytical procedures and engagement evidence. See the IIA Global Internal Audit Standards and the CIA exam syllabus.

QUESTION NO: 36

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annual snowfall for the coming winter. Which of the following best describes this type of risk?

A. Residual

B. Net

C. inherent.

D. Accepted.

ANSWER: C

Explanation:

inherent. is correct because the prospect of substantially less snowfall is an exposure arising from the company's business environment and operating model before considering any actions management may take to address it. A snow removal company depends materially on snowfall for demand and revenue; therefore, a low-snow winter can naturally create adverse financial and operational consequences. Scenario planning helps participants identify and assess that underlying exposure, including its potential impact and likelihood, so that management can make informed decisions about possible responses. The exercise itself does not indicate that controls, contingency plans, diversification initiatives, or other responses have already been implemented and taken into account. The risk under consideration is thus the level of risk that exists prior to management action. The IIA's risk-based approach requires internal auditors to understand the organization's objectives and the risks that may affect their achievement, including external conditions relevant to the organization's strategy and operations. See the IIA's Global Internal Audit Standards and its guidance on risk-based internal auditing.

QUESTION NO: 37

An internal auditor is discussing an audit problem with an engagement client. While listening to the client, the internal auditor should:

A. Prepare a response to the client.

B. Take mental notes on the speaker's nonverbal communication, as it is more important than what is being said.

C. Make sure that all details, as well as the main ideas of the client, are remembered.

D. Integrate the incoming information from the client with information that is already known.

ANSWER: D

Explanation:

“Integrate the incoming information from the client with information that is already known.” is correct because effective listening in an audit discussion is an active process of understanding, interpreting, and assessing information—not merely hearing or retaining isolated facts. An internal auditor should relate the client’s explanation to relevant prior knowledge, such as the engagement objectives, process documentation, walkthrough results, risk assessment, control design, prior audit observations, and other evidence obtained. This allows the auditor to recognize relationships, identify points that need clarification, and determine whether the explanation affects the audit approach or requires additional procedures.

Integrating new information also supports professional judgment. For example, a client’s explanation of an unusual transaction may become meaningful only when considered alongside the auditor’s understanding of the process, applicable policies, and evidence already collected. The auditor can then use appropriate follow-up questions to clarify the matter and obtain sufficient, reliable information for engagement conclusions. This approach aligns with the Global Internal Audit Standards’ emphasis on applying professional judgment and planning and performing engagements based on relevant risk and information. See the IIA’s Global Internal Audit Standards and its Standards resources.

QUESTION NO: 38

Which of the following is a responsibility of the internal auditor once a fraud investigation has been concluded?

A. Ascertain the extent to which fraud has been perpetrated.

B. Notify the appropriate regulatory authorities regarding the outcome of the investigation.

C. Determine if controls need to be implemented or strengthened to reduce future vulnerability.

D. Implement controls to prevent future occurrences.

ANSWER: C

Explanation:

Once a fraud investigation has concluded, internal audit has an important assurance and advisory role in helping the organization address the control conditions that allowed the fraud risk to materialize. “Determine if controls need to be implemented or strengthened to reduce future vulnerability” is correct because internal auditors evaluate the design and effectiveness of governance, risk management, and control processes, then communicate practical recommendations for improvement. The investigation’s results can identify root causes, control gaps, override opportunities, inadequate segregation of duties, weak monitoring, or deficient reporting channels. Internal audit should assess these conditions and recommend proportionate remedial controls, as well as consider follow-up work to determine whether management’s corrective actions were implemented effectively. Management—not internal audit—retains responsibility for establishing and operating controls. This preserves internal audit’s independence while allowing it to provide valuable assurance regarding remediation. The IIA’s Global Internal Audit Standards require internal auditors to evaluate and promote improvement in governance, risk management, and control processes, including communicating engagement conclusions and recommendations. See the IIA Global Internal Audit Standards and the IIA’s Internal Auditing and Fraud practice guidance.

QUESTION NO: 39

Which of the following statements best explains why an internal auditor should pay attention to retained earnings of an organization?

A. Retained earnings indicate the amount of potential dividends to be paid out to new investors.

B. Retained earnings represent the amount of excess cash available in the organization.

C. Retained earnings demonstrate that the organization was able to generate working capital from its own activities.

D. Retained earnings constitute the main criterion used by ratings agencies to assess an organization.

ANSWER: C

Explanation:

Retained earnings demonstrate that the organization was able to generate working capital from its own activities. Retained earnings are the accumulated portion of net income that has been kept in the business rather than distributed to shareholders. As a component of equity, they provide an important indication of the extent to which prior operations have generated profits that management has retained for use in the organization. Internal auditors should pay attention to this balance because it helps them understand the organization's internally generated financial capacity, its historical profitability, and the resources potentially available to support operations, investment, debt servicing, or growth without relying entirely on new external financing. Although retained earnings are not themselves cash and do not by themselves establish the current level of working capital, a sustained retained-earnings balance is evidence that the organization has generated and reinvested resources through its activities. This makes the balance relevant when assessing financial condition, capital management, and risks associated with liquidity and long-term sustainability. The Financial Accounting Standards Board describes retained earnings as part of stockholders' equity arising from cumulative earnings retained in the entity; see FASB Accounting Standards Codification Glossary. The general relationship between net income, distributions, and retained earnings is also described by AccountingCoach.

QUESTION NO: 40

To which of the following aspects should the chief audit executive give the most consideration while communicating an identified unacceptable risk to management?

A. The organization's attitude to hierarchy.

B. The organization's whistleblowing strategy.

C. The organization's ongoing risk monitoring process.

D. The organization's risk management policy.

ANSWER: D

Explanation:

The organization's risk management policy is correct because it establishes the organization's approved approach to identifying, assessing, treating, monitoring, and escalating risk, including risk appetite and tolerance parameters. When the chief audit executive identifies that management has accepted a level of risk that appears unacceptable, communication should be grounded in these formally approved risk-management expectations. This enables the chief audit executive to explain clearly how the exposure relates to the organization's stated appetite, tolerances, control expectations, and escalation responsibilities, rather than presenting the concern as only an individual audit judgment.

The chief audit executive should first discuss the matter with senior management, seek to understand management's rationale for accepting the risk, and determine whether the residual risk exceeds what the organization permits under its risk management arrangements. If the matter is not resolved, the chief audit executive communicates the risk and the implications to the board. The IIA's Global Internal Audit Standards require the chief audit executive to communicate acceptance of risk when management's acceptance exceeds the organization's risk appetite or tolerance. See IIA Global Internal Audit Standards and Global Internal Audit Standards PDF.

QUESTION NO: 41

An internal auditor is planning an audit engagement of a subsidiary organization. The auditor learns that a corporate investigator from the holding organization is investigating the subsidiary regarding a fraud case. Which of the following is true regarding the scope of the internal auditor's engagement?

A. As the fraud is already being investigated by the corporate investigator, it should be excluded from the scope of the audit engagement

B. The engagement should be framed as an advisory engagement to support the corporate investigator ' s work

C. The area under investigation should be excluded from the engagement scope if the auditor does not have the technical skills required to support a fraud investigation

D. The scope should consider the nature of the fraud risk and control weaknesses identified from the fraud case

ANSWER: D

Explanation:

The scope should consider the nature of the fraud risk and control weaknesses identified from the fraud case. Information from an ongoing fraud investigation is highly relevant to engagement planning because it may identify elevated risk areas, potential breakdowns in governance or internal control, and processes that warrant focused audit attention. The internal auditor should use this information, together with the engagement objectives and risk assessment, to determine the appropriate areas, systems, time periods, and controls to examine. This does not require the auditor to take over the investigator's role or independently conduct specialized forensic procedures beyond the audit team's competence. Rather, the engagement can evaluate the design and effectiveness of controls related to the conditions revealed by the case, such as segregation of duties, approval controls, monitoring, reporting channels, and management oversight. Appropriate coordination with the corporate investigator helps preserve the integrity of evidence and avoids interfering with the investigation, while still allowing internal audit to provide assurance on the underlying risk and control environment. The IIA's Global Internal Audit Standards require engagement planning to consider the engagement's objectives, risks, and relevant information, and to establish an appropriate scope. See the IIA Global Internal Audit Standards and the IIA's Standards resource page.

QUESTION NO: 42

The chief audit executive (CAE) of a new organization is in the process of determining the manner in which audit reports will be distributed and to whom. According to the Standards, which of the following is the most appropriate course of action for the CAE to take to develop this distribution process?

A. The process should be determined in meetings with the external auditor and senior management to ensure alignment with external reporting.

B. The CAE should meet with senior management for their input, but finalize the distribution of all reports with the board.

C. The CAE should independently implement the report distribution, using best judgment to ensure that all relevant stakeholders are informed.

D. The CAE should request that senior management and the board meet to determine the most appropriate reporting method.

ANSWER: B

Explanation:

The CAE should meet with senior management for their input, but finalize the distribution of all reports with the board. The board has an essential governance role in supporting and overseeing internal audit, including ensuring that the internal audit function has appropriate authority, access, and communication channels. Accordingly, the CAE should obtain management's practical input about who needs engagement results, operational sensitivities, regulatory needs, and methods for timely communication. However, the board's involvement is necessary because report-distribution arrangements affect the internal audit function's independence and its ability to communicate significant matters without inappropriate management restriction.

Distribution protocols should ensure that engagement results reach the parties able to act on them and that the board receives information necessary to fulfill its oversight responsibilities. Finalizing the overall process with the board also establishes clear expectations in advance for routine reporting, escalation of significant risk exposures, and communications involving senior management. This approach supports the CAE's direct functional relationship with the board while retaining meaningful coordination with management. The Global Internal Audit Standards describe the board's responsibility to support the CAE and enable effective communication, while requiring the CAE to communicate engagement conclusions and significant matters to appropriate parties. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 43

When forming an opinion on the adequacy of management ' s systems of internal control, which of the following findings would provide the most reliable assurance to the chief audit executive?

• During an audit of the hiring process in a law firm, it was discovered that potential employees ' credentials were not always confirmed sufficiently. This process remained unchanged at the following audit.

• During an audit of the accounts payable department, auditors calculated that two percent of accounts were paid past due. This condition persisted at a follow up audit.

• During an audit of the vehicle fleet of a rental agency, it was determined that at any given time, eight percent of the vehicles were not operational. During the next audit, this figure had increased.

• During an audit of the cash handling process in a casino, internal audit discovered control deficiencies in the transfer process between the slot machines and the cash counting area. It was corrected immediately.

A. 1 and 3 only

B. 1 and 4 only

C. 2 and 3 only

D. 2 and 4 only

ANSWER: D

Explanation:

The combination *2 and 4 only* provides the most reliable assurance because it supplies meaningful evidence about both the operating results of controls and management's response to a control issue. A two-percent late-payment rate is a quantified measure of process performance. Because the rate remained stable at follow-up, it provides evidence that the accounts-payable process is operating consistently and that the residual exception rate can be evaluated against management's established performance expectations, risk tolerance, and the significance of late payments.

The cash-handling finding is particularly persuasive because it concerns a high-risk process and demonstrates that a detected control deficiency was corrected immediately. Timely remediation indicates that management's control system includes an effective mechanism for identifying issues, taking corrective action, and restoring the intended control condition. In forming an overall opinion, the chief audit executive considers the significance of individual findings, the results of follow-up work, and whether management addresses deficiencies in a timely manner. This approach is consistent with the requirement that internal audit communicate conclusions and monitor the disposition of engagement results under the IIA Global Internal Audit Standards. The IIA also describes internal auditing's role in evaluating and improving governance, risk management, and control processes on its About Internal Audit page.

QUESTION NO: 44

In which of the following ways can the internal audit activity new engagement opportunities?

A. By defining activities by business processes.

B. By looking external factors such as product complaints.

C. By looking at activities by businesses cost centers.

D. By defining activities by the organization chart.

ANSWER: A

Explanation:

By defining activities by business processes is correct because a process-based view helps the internal audit activity identify work that is meaningful across organizational boundaries and aligned with how risks are actually created, managed, and monitored. Business processes commonly span multiple departments, systems, locations, and cost centers; therefore, defining the audit universe around processes provides a more complete basis for recognizing potential assurance and advisory engagements. For example, a procure-to-pay, order-to-cash, cybersecurity incident-response, or third-party-management process may involve several organizational units but have common objectives, risks, controls, and dependencies that warrant an integrated engagement. This approach supports risk-based planning because internal audit can assess the significance of each process, the related strategic objectives, changes in the operating environment, and the adequacy of risk management and control activities. The IIA's Global Internal Audit Standards require the chief audit executive to establish a risk-based internal audit plan that considers the organization's strategies, objectives, and risks, and to review and adjust that plan as circumstances change. A business-process framework is a practical way to meet this requirement while revealing emerging engagement opportunities. See The IIA Global Internal Audit Standards and The IIA Standards resources.

QUESTION NO: 45

As part of an operational audit, an auditor compared records of current inventory with usage during the prior two-year period and determined that the spare parts inventory was excessive. What step should the auditor perform first?

A. Determine the effects of a stock-out on the organization's profitability.

B. Determine whether a clear policy exists for setting inventory limits.

C. Determine who approved the purchase orders for the spare parts.

D. Determine whether purchases were properly recorded.

ANSWER: B

Explanation:

"Determine whether a clear policy exists for setting inventory limits" is the appropriate first step because the auditor must establish the criteria against which the apparent excess is evaluated. A comparison of inventory on hand to historical usage is a useful indicator of a potential condition, but it does not by itself establish what inventory level is appropriate. Spare-parts requirements can legitimately vary based on criticality of equipment, supplier lead times, minimum-order quantities, expected maintenance schedules, obsolescence risk, and the organization's tolerance for downtime. A documented policy or other defined inventory-planning criteria should specify how such considerations are incorporated into reorder points, safety-stock levels, and maximum quantities. The auditor can then assess whether the actual holdings exceed authorized or reasonable limits and can investigate the cause and impact of any deviation. This reflects the internal audit requirement to identify suitable evaluation criteria when assessing a process, as addressed in the IIA's Global Internal Audit Standards. It also aligns with established inventory-control practice, under which safety stock and reorder decisions are based on demand, lead time, and service-level considerations; see Investopedia's overview of safety stock.

QUESTION NO: 46

Senior management is challenging regulatory fines that were assessed to the organization due to questionable business practices. Their actions and the fines could have an adverse effect on the organization ' s ability to continue business. How would the chief audit executive respond?

A. Assume responsibility for quantifying and minimizing the residual risks to the organization.

B. Assess the level of financial risks that may affect the organization ' s stability.

C. Inform the regulatory agency about senior management ' s action and seek guidance.

D. Proceed with a consulting engagement to benchmark similar organizations ' business practices in the region.

ANSWER: B

Explanation:

Assess the level of financial risks that may affect the organization ' s stability. The assessed regulatory fines and the underlying business-practice concerns create a potentially material threat to the organization's financial condition, liquidity, legal obligations, reputation, and ability to continue operating. The chief audit executive's appropriate role is to ensure internal audit provides independent, risk-based assurance on whether these risks have been identified, evaluated, and managed through effective governance, risk management, and control processes. This can include evaluating the reliability of management's financial-risk assessment, the potential magnitude and timing of fines or related costs, relevant contingencies and disclosures, and whether escalation and response processes are adequate. The work should be performed objectively and reported through appropriate governance channels, enabling the board and senior management to make informed decisions. This approach preserves internal audit's independence while directly addressing the organization-level risk posed by the regulatory matter. The IIA's Global Internal Audit Standards require internal audit to evaluate and contribute to improvement of governance, risk management, and control processes, with engagement priorities based on risk. See the IIA Global Internal Audit Standards and the IIA Standards resources.

QUESTION NO: 47

Which of the following statements is true regarding an organization's inventory valuation?

A. The valuation will be incorrect if the inventory includes goods in transit shipped free on board (FOB) destination to another organization.

B. The valuation will be correct if the inventory includes goods received on consignment from another organization.

C. The valuation will be incorrect if the inventory includes goods in transit shipped FOB shipping point from another organization.

D. The valuation will be correct if the inventory includes goods sent on consignment to another organization

ANSWER: D

Explanation:

The valuation will be correct if the inventory includes goods sent on consignment to another organization. In a consignment arrangement, delivering goods to the consignee does not ordinarily transfer ownership or the significant risks and rewards of ownership to that consignee. The consignee holds the goods for sale on the consignor's behalf and generally earns a commission when a sale occurs. Until a customer purchases the goods, the consignor retains the economic interest in them and must continue to recognize the goods as inventory in its financial records.

Accordingly, an inventory count and valuation that includes merchandise the organization has sent to a consignee is complete with respect to the organization's owned inventory. An internal auditor assessing inventory valuation should ensure that the entity has identified consigned-out inventory, included it in inventory records and financial reporting, and maintained records or confirmations supporting the quantity and location of those goods. This treatment reflects the principle that inventory reporting is based on control and ownership, rather than merely on physical possession. IAS 2 requires inventories to be measured and recognized appropriately in financial statements; its requirements are available from the IFRS Foundation's IAS 2 overview. The underlying ownership principle is also consistent with the Uniform Commercial Code provisions on title passage.

QUESTION NO: 48

Which of the following statements is correct regarding the use of a program evaluation and review technique (PERT) model?

• It makes use of a probability model to arrive at a realistic estimate of time necessary for completion of the audit engagement.

• It requires that activities are performed in sequence such that each task is completed before the commencement of the next activity.

• It remains fixed once completed to act as a baseline for measuring the performance of the audit staff following completion of the engagement.

• It begins with the auditor-in-charge identifying the overall scope and then breaking down the audit engagement into identifiable activity units.

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. PERT is a network-based planning and scheduling technique that recognizes uncertainty in activity-duration estimates. For each activity, the engagement team can estimate optimistic, most likely, and pessimistic durations, then use those estimates to calculate an expected duration. This probabilistic approach gives the auditor-in-charge a more realistic basis for forecasting the time needed to complete the engagement than a single-point estimate alone. It is particularly useful when audit work involves unfamiliar systems, multiple dependencies, or activities whose duration cannot be estimated with confidence.

Using PERT appropriately starts with defining the engagement's objectives and scope, then decomposing the work into identifiable activities or work units. The auditor-in-charge identifies the activities required to complete the engagement, estimates their durations and dependencies, and maps them in a network. This allows the team to identify the critical path and focus monitoring on activities that directly affect the planned completion date. That structured planning supports the IIA requirement for engagement planning to consider objectives, scope, timing, and resource allocations. See the IIA's Global Internal Audit Standards and the Project Management Institute's overview of PERT analysis for project scheduling.

QUESTION NO: 49

A company used simple regression analysis to analyze maintenance costs against machine hours (MH) for a 26-week period when the plant was in full operation. The regression yielded the following estimated cost function:

Maintenance Cost = $60 + $0.25/MH

The regression analysis also generated a coefficient of determination (R2), or goodness of fit, of 0.85. Which of the following statements regarding this regression analysis is appropriate?

A. This regression can be used to determine the maintenance cost for any period at any activity level by substituting the machine hours in the equation.

B. The $60 component represents the best estimate of fixed maintenance costs for the company in a shutdown situation.

C. The $0.25 component is the slope coefficient of the cost estimate and represents the average variable maintenance cost per machine hour.

D. The coefficient of determination of R2 = 0.85 indicates that the goodness of fit is poor because the value is close to the maximum value of one.

ANSWER: C

Explanation:

The $0.25 component is the slope coefficient of the estimated linear cost function. In a simple regression model expressed as total cost = intercept + (slope × activity), the slope measures the estimated change in total maintenance cost associated with one additional unit of the activity driver. Because machine hours are the activity measure here, the coefficient indicates that maintenance cost is estimated to increase, on average, by $0.25 for each additional machine hour. Accordingly, it is the estimated variable maintenance-cost rate per machine hour for the operating conditions represented by the 26-week data set.

This interpretation is consistent with cost-behavior analysis: the intercept estimates the cost at a zero activity level within the model, while the activity coefficient estimates the unit-level variable component. The reported coefficient of determination of 0.85 further indicates that machine hours explain 85% of the variation in observed maintenance costs in the sample, supporting a relatively strong fit for this estimated relationship. Regression estimates should nevertheless be applied with professional judgment and principally within the relevant operating range reflected in the underlying observations. See NIST’s discussion of simple linear regression and OpenStax’s overview of fixed and variable cost behavior.

QUESTION NO: 50

During planning, the chief audit executive submits a risk-and-control questionnaire to management of the activity under review. Which of the following statements is true regarding the questionnaire?

A. It would be an inefficient way for internal auditors to address multiple controls in the activity under review.

B. It would limit certain members of the internal audit team from being fully involved in the engagement.

C. It would be the most effective way for the internal audit team to obtain a detailed understanding of the processes and controls in the activity to be audited.

D. It would be an efficient way for the internal audit team to determine whether specified control activities are in place.

ANSWER: D

Explanation:

“It would be an efficient way for the internal audit team to determine whether specified control activities are in place” is correct. During engagement planning, internal auditors need sufficient preliminary information to understand the area under review, identify significant risks, and focus engagement objectives and procedures. A risk-and-control questionnaire can efficiently obtain management’s documented representations about the existence and design of identified control activities across multiple processes. It also provides a structured means to collect information consistently, flag areas requiring follow-up, and support development of the risk assessment and audit work program.

The questionnaire is a planning tool rather than conclusive audit evidence that controls operate effectively. Internal auditors should use its responses alongside other planning techniques, such as reviewing policies and prior audit results, conducting interviews, and performing walkthroughs. This combination helps the team validate management’s descriptions and gain the level of process understanding needed to design appropriate testing. The Global Internal Audit Standards require internal auditors to gather relevant, reliable, and sufficient information to support engagement results, while planning standards require a documented engagement plan based on an assessment of relevant risks. See The IIA’s Global Internal Audit Standards and IIA Standards resources.

QUESTION NO: 51

An organization is experiencing a significant risk that threatens its financial well-being Senior management requested that the chief audit executive (CAE) meet with them to discuss the risk. Which of the following would best describe the CAE's responsibility at the meeting?

A. Inform senior management of the appropriate actions they should take to control the risk

B. Recommend that the internal audit activity provide consulting services to help minimize the risk

C. Assume the responsibility of resolving the significant risk that will affect the organization

D. Determine whether senior management accepted risk that may be deemed unacceptable for the organization

ANSWER: D

Explanation:

Determine whether senior management accepted risk that may be deemed unacceptable for the organization is correct because the CAE's role includes evaluating whether management's response to an identified risk is within the organization's established risk appetite and tolerance. The CAE does not take ownership of the risk or make management's decisions; rather, the CAE provides independent assurance and perspective on the adequacy of risk management, governance, and controls.

When a significant risk threatens the organization's financial well-being, the CAE should discuss the matter with senior management to understand the risk, the proposed or existing management response, and whether the residual exposure is acceptable. If the CAE concludes that management has accepted a level of risk that exceeds the organization's risk appetite or tolerance, the CAE must first address the concern with senior management. If the matter remains unresolved, the CAE is required to communicate it to the board so the board can exercise its governance and oversight responsibilities.

This preserves management's accountability for managing risk while ensuring that potentially unacceptable risk acceptance receives appropriate escalation. The IIA addresses this responsibility in Standard 11.5, *Communicating Acceptance of Risks*, in the Global Internal Audit Standards. Additional guidance is available from The IIA Standards resource page.

QUESTION NO: 52

An organization has acquired a new line of business. None of the organization's internal auditors have the required expertise to perform an internal audit of the new business line; therefore, the chief audit executive (CAE) has contracted the services of an external audit firm to perform the engagement. The CAE has assigned a member of the internal audit team to assist the external team with the engagement. According to the Standards, which of the following statements is true regarding supervision of the engagement?

A. The CAE may rely upon the external firm's auditor in charge to supervise the engagement.

B. The external firm's auditor in charge must defer to the judgment of the CAE for any disputes.

C. The CAE is not responsible for the quality of an audit performed by an external firm.

D. The CAE should not assign an inexperienced staff member to assist with the engagement.

ANSWER: A

Explanation:

The CAE may rely upon the external firm's auditor in charge to supervise the engagement. When specialized knowledge is unavailable within the internal audit function, the CAE may obtain competent external service-provider assistance. The external firm's auditor in charge is positioned to direct and review the day-to-day work of that firm's personnel, including work methods, evidence obtained, and adherence to the agreed engagement approach. Assigning an internal audit staff member to assist does not require the CAE personally to perform all operational supervision of the external team.

Reliance on the external auditor in charge for engagement-level supervision does not transfer the CAE's overall accountability for the internal audit function. The CAE remains responsible for ensuring that external resources are appropriately qualified, objective, and used under clear terms that establish the scope, responsibilities, deliverables, and expected quality of the work. The CAE should also review whether the completed work can be relied on and whether it supports the engagement conclusions. This arrangement allows the organization to obtain needed expertise while maintaining appropriate internal audit oversight and conformance with professional requirements. The IIA's Global Internal Audit Standards address the CAE's responsibility for obtaining and managing appropriate resources, including external service providers, and for ensuring engagement work is appropriately supervised and reviewed. See The IIA Global Internal Audit Standards and The IIA Standards resources.

QUESTION NO: 53

An internal auditor provided the following statement about division A's performance during the month: "Because supplies of raw material X were scarce, division A's profits declined by 15 percent." Which of the following can be validly concluded from the auditor's statement?

I. Division A's production level declined by 15 percent.

II. Division A could have sold more products than it produced.III. Division A usually sells all of the products that it produces.

A. I only

B. II only

C. III only

D. I and II only

E. Division A's production level declined by 15 percent.
II. Division A could have sold more products than it produced.III. Division A usually sells all of the products that it produces.

ANSWER: B

Explanation:

II only is the valid conclusion. The statement attributes the profit decline to a scarcity of raw material X. A shortage of a production input can constrain the quantity of goods a division is able to manufacture. If production is constrained by unavailable raw materials, it is reasonably possible that customer demand exceeded the quantity available for sale; therefore, the division could have sold more products than it produced. The word “could” is important because it expresses a feasible implication of the stated supply constraint, rather than claiming that unmet demand definitely existed.

Internal auditors should distinguish carefully between information directly supported by evidence and conclusions that require additional evidence. Here, the causal statement supports a limited conclusion about the possibility that scarce inputs restricted output available for sale. Sound engagement analysis requires auditors to evaluate information for relevance and reliability before using it to support findings and conclusions. This approach is consistent with the IIA’s requirements for gathering and assessing information in support of engagement results, as described in the [Global Internal Audit Standards]. The IIA also emphasizes evidence-based assurance and advisory work in its [overview of internal auditing].

QUESTION NO: 54

Which of the following contributes to the reliability of information collected for an audit engagement?

A. The information is gathered from a system where the controls are operating effectively

B. The information is obtained directly from an experienced manager in writing

C. The information is consistent with the objectives for the engagement

D. The information is useful to help the organization meet its goals

ANSWER: A

Explanation:

The information is gathered from a system where the controls are operating effectively is correct because the reliability of audit information is closely connected to the conditions under which it is generated, maintained, and obtained. Effective controls over a system help support the completeness, accuracy, authorization, processing integrity, and protection of its data. Consequently, an internal auditor can place greater confidence in information produced by that system when evaluating whether it provides an appropriate basis for engagement observations and conclusions.

IIA requirements for performing engagements require internal auditors to identify information that is relevant, reliable, and sufficient to achieve engagement objectives. Reliability is strengthened when information comes from a controlled process and when the auditor has a sound basis for trusting the system that created or retained it. Assessing the design and operating effectiveness of relevant controls is therefore an important part of determining the quality of system-generated evidence. This principle also aligns with the broader evidence concept that dependable information is obtained from credible sources and under conditions that preserve its integrity. See The IIA’s [Global Internal Audit Standards] and the IIA’s [Standards resource page].

QUESTION NO: 55

When addressing the excessive overtime being paid lo employees in an organization ' s customer service call center, which of the following would be most relevant for the internal auditor to use?

1 Confirmation.

2. Trend analysis.

3 External benchmarking

4. Internal benchmarking

A. 1.2 and 3

B. 1.2. and 4.

C. 1.3. and 4.

D. 2. 3. and 4.

ANSWER: D

Explanation:

2. 3. and 4. is correct because these methods provide complementary evidence for evaluating whether overtime in the call center is excessive and identifying the operational conditions that may be driving it. Trend analysis allows the internal auditor to examine overtime hours and costs over successive periods, then relate changes to call volumes, staffing levels, absenteeism, scheduling changes, service-level targets, and turnover. This supports identification of persistent patterns, unusual spikes, and potential root causes.

External benchmarking gives useful context by comparing relevant call-center measures, such as overtime rates, staffing ratios, call volumes, and service performance, with suitable peer organizations or industry data. Internal benchmarking is similarly valuable where the organization has comparable teams, locations, shifts, or business units. Comparing practices and results internally can reveal more efficient staffing, scheduling, workforce-planning, or workload-management approaches already used within the organization.

Together, these analyses enable the auditor to evaluate the significance of the overtime issue using sufficient, relevant, and reliable information and to develop practical, evidence-based recommendations. The Global Internal Audit Standards require auditors to analyze and evaluate information supporting engagement results; see The IIA's Global Internal Audit Standards. The IIA also provides guidance on applying analytics in audit work through its Practice Guides.

QUESTION NO: 56

An internal auditor has discovered that duplicate payments were made to one vendor Management has recouped the duplicate payments as a corrective action Which of the following describes managements action in this case?

A. A condition-based action plan

B. A cause-based action plan.

C. A root cause-based action plan.

D. An effect-based action plan.

ANSWER: D

Explanation:

An effect-based action plan. is correct because recouping the duplicate payments addresses the realized consequence of the control failure: the organization's loss of cash resulting from payments that should not have been made. Recovering the funds restores the organization financially, at least to the extent recovery is successful, and is therefore an appropriate immediate corrective measure for the effect that has already occurred. In internal audit terminology, an effect-based response remediates the impact or symptom identified by an audit finding rather than necessarily changing the process that allowed the event to occur. Clear reporting of the condition, associated risk or impact, and management's action plan supports accountable follow-up. The IIA's Global Internal Audit Standards require internal auditors to communicate engagement conclusions and significant findings, including their significance and recommendations or agreed action plans, so management can take appropriate corrective action. See the [IIA Global Internal Audit Standards](). In this situation, recovery of the money directly resolves the financial impact of the duplicate-payment incident and thus fits the definition of an effect-based plan. Management may separately decide to strengthen invoice-processing controls to prevent recurrence, but the stated action itself is the recovery of the effect.

QUESTION NO: 57

An internal auditor is asked to perform an assurance engagement in the organization's newly acquired subsidiary When developing the objectives tor the engagement which ot the following statements describes the most important items that the auditor needs to consider?

A. Previous performance of the subsidiary specifically its financial results over the last three years and the outcome of external audit reviews

B. The results of previous internal audits of the subsidiary the recommendations provided and whether the recommended actions have been implemented

C. Organizational strategy objectives, risks, control framework and the expectations of stakeholders regarding the audit

D. The qualifications and competencies of the subsidiary's management team and their understanding of risk and control

ANSWER: C

Explanation:

Organizational strategy objectives, risks, control framework and the expectations of stakeholders regarding the audit is correct because engagement objectives must be developed from an understanding of what the organization is trying to achieve, the risks that could prevent achievement, and the controls intended to manage those risks. This is especially important for a newly acquired subsidiary, where governance arrangements, processes, systems, and risk exposures may not yet be fully integrated with those of the parent organization. Considering stakeholder expectations also helps ensure that the assurance engagement addresses the matters of greatest value and relevance to the board and senior management while remaining aligned with the approved internal audit plan and mandate.

The IIA's Global Internal Audit Standards require internal auditors to perform an engagement-level risk assessment and use its results to establish engagement objectives and scope. That assessment considers the organization's strategies and objectives, relevant risks, the adequacy of risk management and controls, and information from appropriate stakeholders. Accordingly, these broad, forward-looking inputs provide the proper foundation for a focused, risk-based assurance engagement. See the IIA's [Global Internal Audit Standards](), particularly the engagement-planning requirements, and its [Standards and guidance resources]().

QUESTION NO: 58

An internal audit team leader is having difficulties completing the planning phase of an assurance engagement because the business unit lacks a system of internal controls. Which of the following is the most appropriate course of action for the internal audit team leader?

A. Defer the engagement until a system of internal control has been established

B. Change the scheduled engagement from assurance to consulting to help correct the shortcomings

C. Add a consulting component to the already scheduled assurance engagement

D. Seek the involvement of the external auditor to assist with improving the internal controls

ANSWER: C

Explanation:

Add a consulting component to the already scheduled assurance engagement is the most appropriate response because the absence of a control system is itself highly relevant to the assurance objective and should not prevent internal audit from assessing and communicating the unit's control condition. The team can retain the assurance engagement's independent evaluation of governance, risk management, and control while also providing advisory assistance that helps management understand the control gaps and consider practical control-design improvements.

Combining the work in this way supports a constructive result: the assurance component provides an objective conclusion on the adequacy and effectiveness of the current arrangements, while the consulting component can offer recommendations, facilitation, or control-framework advice. Management remains responsible for designing, implementing, and operating internal controls; internal audit must not assume those responsibilities. The engagement plan, objectives, scope, deliverables, and any safeguards for objectivity should clearly distinguish the assurance and consulting work. This approach is consistent with the Global Internal Audit Standards' requirements to plan engagements based on risks and to communicate results that help management strengthen governance, risk management, and control. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 59

Which of the following is a disadvantage of using flowcharts during a risk assessment?

A. People cannot quickly understand the processes via flowcharts.

B. Flowcharts are not applicable for evaluating the design of controls.

C. Some serious risks that are not part of the linear process can be missed.

D. Flowcharts do not enable auditors to identify missing controls.

ANSWER: C

Explanation:

"Some serious risks that are not part of the linear process can be missed." is correct because a conventional flowchart primarily depicts the ordered sequence of activities, decisions, documents, and handoffs within a defined process. This visualization is valuable for understanding how work is intended to move through the process and for identifying control points. During risk assessment, however, material exposures may arise outside that normal sequence—for example, through management override, collusion, system interfaces, third-party dependencies, exceptional transactions, informal workarounds, or external events. These risks may not be visible when the analysis is limited to the standard end-to-end process path shown in a flowchart.

Accordingly, internal auditors should use flowcharts as one input to risk identification, supplemented by interviews, walkthroughs, data analysis, consideration of exceptions, and an assessment of fraud and external risks. This broader approach supports the risk-based engagement planning and evaluation expected under the IIA's Global Internal Audit Standards, including obtaining sufficient understanding of the activity and its relevant risks. The IIA's standards framework is available at https://www.theiia.org/en/standards/. Practical process-mapping guidance is also available from the U.S. Government Accountability Office at https://www.gao.gov/products/gao-15-704g.

QUESTION NO: 60

Which of the following procedures would provide the most reliable evidence for an internal auditor testing whether defective products are effectively being identified and removed during processing before shipping to customers?

A. Reviewing quality department survey results, which show 96% of employees believe all defective products are removed prior to shipping.

B. Physically inspecting a sample of completed processing cycles for defective products prior to shipment.

C. Observing employees while they inspect products for defects.

D. Reviewing a quality report provided by management that shows 13 products were identified and removed during the most recent processing cycle.

ANSWER: B

Explanation:

Physically inspecting a sample of completed processing cycles for defective products prior to shipment provides the most reliable evidence because it gives the internal auditor direct, firsthand evidence about the actual condition of products and the operation of the defect-removal process. The engagement objective is not merely to establish that personnel understand the requirement or that management reports defects removed; it is to determine whether defective items are in fact identified and prevented from reaching customers. By examining products and tracing the results of completed processing cycles before shipment, the auditor can verify the tangible outcome of the control: defective products have been detected, segregated, and removed from the population available for dispatch. This procedure also allows the auditor to document the sample tested, the defects identified, and the disposition of affected items, making the evidence persuasive and reproducible in the engagement workpapers. The IIA's Global Internal Audit Standards require auditors to obtain relevant, reliable, and sufficient information to support engagement results. Direct examination of physical evidence is especially reliable because it is obtained by the auditor rather than relying solely on representations or reports generated by others. See the [IIA Global Internal Audit Standards] and the IIA's [Standards resources].

QUESTION NO: 61

Which of the following would be the most helpful to a chief audit executive when developing a talent management strategy?

A. Gap analysis

B. Staff preferences

C. Maturity analysis

D. Extent of external audit coverage

ANSWER: A

Explanation:

Gap analysis is most helpful because an effective talent management strategy must be based on the difference between the internal audit function's current capabilities and the capabilities it needs to fulfill its mandate, achieve its objectives, and execute its risk-based audit plan. The chief audit executive can use a gap analysis to identify shortages in technical knowledge, industry expertise, technology and data analytics skills, communication abilities, leadership capacity, and available resource levels. It also helps assess whether capability needs are better addressed through recruiting, training, coaching, succession planning, rotation programs, co-sourcing, or other sourcing arrangements.

This forward-looking assessment connects people decisions to the organization's risks and to the skills needed for current and anticipated engagements. It gives the chief audit executive a structured basis for prioritizing development investments and for communicating resource needs to senior management and the board. The Global Internal Audit Standards require the chief audit executive to establish a strategy for obtaining and developing the human resources necessary to achieve the internal audit mandate and plan, including evaluating competencies and addressing resource gaps. See the IIA's [Global Internal Audit Standards] and its [Standards resources].

QUESTION NO: 62

According to the International Professional Practices Framework, the responsibility for establishing and maintaining a system to monitor the disposition of results communicated to management falls upon:

A. Compliance officer.

B. Chief audit executive.

C. Senior management.

D. Risk manager.

ANSWER: B

Explanation:

The **Chief audit executive.** is responsible for establishing and maintaining a system to monitor the disposition of engagement results that have been communicated to management. This responsibility is set out in IIA Standard 2500, *Monitoring Progress*. Monitoring is not merely an administrative follow-up activity; it enables the internal audit function to determine whether management has implemented agreed actions, accepted the relevant risk, or taken other appropriate action in response to audit recommendations and conclusions.

The chief audit executive should use a systematic process, such as a follow-up tracker, status reporting, validation procedures, and escalation protocols, to track corrective-action plans and their due dates. Where management accepts a level of risk that the chief audit executive believes may be unacceptable to the organization, the chief audit executive is expected to discuss the matter with senior management and, if unresolved, communicate it to the board. This monitoring role supports effective governance, risk management, and internal control by ensuring that engagement results receive appropriate attention after reporting. See the IIA's Global Internal Audit Standards and the IIA's Implementation Guidance.

QUESTION NO: 63

According to IIA guidance, which of the following strategies would add the least value to the achievement of the internal audit activity's (IAA's) objectives?

A. Align organizational activities to internal audit activities and measure according to the approved IAA performance measures.

B. Establish a periodic review of monitoring and reporting processes to help ensure relevant IAA reporting.

C. Use the results of IAA engagement and advisory reporting to guide current and future internal audit activities.

D. Establish a format and frequency for IAA reporting that is appropriate and aligns with the organization's governance structure.

ANSWER: A

Explanation:

"Align organizational activities to internal audit activities and measure according to the approved IAA performance measures." would add the least value because it reverses the appropriate alignment relationship. The internal audit activity is intended to support the organization's ability to create, protect, and sustain value by providing risk-based assurance, advice, insight, and foresight. Therefore, the internal audit strategy, plans, and activities should be aligned with the organization's objectives, strategic direction, risk environment, and governance needs—not used as the basis for directing organizational activities.

Performance measures are valuable when they evaluate whether the IAA is effectively fulfilling its mandate and contributing to organizational objectives. However, making organizational activities conform to internal audit activities or IAA measures could improperly position internal audit as directing management operations. This is inconsistent with internal audit's independent role and its responsibility to assess and advise on governance, risk management, and control processes. The IIA's Global Internal Audit Standards emphasize that the chief audit executive must develop a strategy that supports the organization's objectives and strategic direction, while preserving internal audit independence. See the IIA Global Internal Audit Standards and the IIA's overview of professional standards.

QUESTION NO: 64

Which of the following would not be an appropriate step for an internal auditor to perform during an assessment of compliance with an organization's privacy policy?

A. Determine who can access databases containing confidential information.

B. Evaluate the organization's privacy policy to determine if appropriate information is covered.

C. Analyze access to permanent files and reports containing confidential information.

D. Evaluate the government's security measures related to confidential information received from the organization.

ANSWER: D

Explanation:

“Evaluate the government's security measures related to confidential information received from the organization.” would not ordinarily be an appropriate audit step because the government’s internal security environment is outside the organization’s authority, records, and normal audit access. An engagement assessing compliance with the organization’s own privacy policy should focus on whether the organization has designed and operates controls over the collection, use, retention, disclosure, and protection of confidential information in accordance with that policy. This includes examining access rights, reviewing how sensitive information is held in systems and reports, and assessing whether the policy addresses relevant categories of information and handling requirements.

Where information is disclosed to a government entity, the internal auditor may appropriately examine the organization’s own authorization, disclosure procedures, agreements, records of transfer, and controls for ensuring that the disclosure is permitted by policy and applicable requirements. However, directly evaluating the recipient government’s security measures would generally require authority and access that the organization does not possess, and it does not test the organization’s compliance with its own policy. Internal audit engagements should be scoped to provide assurance on governance, risk management, and controls within the organization’s remit, consistent with the IIA Global Internal Audit Standards. Privacy-control assessment practices are also described in NIST’s Privacy Framework.

QUESTION NO: 65

The internal audit activity has adopted the balanced scorecard approach to assess its performance According to MA guidance which of the following is a key performance indicator relevant to the audit client?

A. Percentage of recommendations implemented by corrective action date

B. Staff experience

C. Percentage of planned audits completed

D. Conformance with the International Professional Practices Framework

ANSWER: A

Explanation:

Percentage of recommendations implemented by corrective action date is a key performance indicator that is directly relevant to audit clients because it measures whether audit results lead to timely corrective action. Internal auditing creates value not merely by identifying control, governance, or risk-management issues, but by helping the organization address agreed actions that reduce the underlying risk. Tracking implementation by the agreed corrective-action date provides a practical indicator of the client’s responsiveness, the usefulness and acceptance of audit recommendations, and the extent to which engagement outcomes are being translated into improvements. Within a balanced scorecard, this measure fits the client or stakeholder perspective: it focuses on a result that matters to management and audit clients—the timely resolution of matters identified during an audit. It also supports follow-up activities, enabling the chief audit executive and the board to understand whether residual risks remain because corrective measures have not yet been completed. The IIA’s Global Internal Audit Standards require the chief audit executive to establish performance measures to assess progress toward objectives, and they specifically recognize monitoring the implementation of management action plans as part of communicating engagement results and following up on action plans. See the IIA Global Internal Audit Standards and the IIA’s guidance resources.

QUESTION NO: 66

Which of the following is an appropriate responsibility for the internal audit activity with regard to the organization's risk management program?

A. Identifying and managing risks in line with the entity's risk appetite.

B. Ensuring that a proper and effective risk management process exists.

C. Attaining an adequate understanding of the entity's key mitigation strategies.

D. Identifying and ensuring that appropriate controls exist to mitigate risks.

ANSWER: C

Explanation:

Attaining an adequate understanding of the entity's key mitigation strategies is an appropriate internal audit responsibility because internal auditors need sufficient knowledge of the organization’s objectives, significant risks, and management’s responses to those risks to plan and perform risk-based engagements. Understanding mitigation strategies enables the internal audit activity to identify relevant audit objectives, assess whether risk responses and related controls are suitably designed, and determine where assurance or advisory work can add value. This knowledge also supports meaningful communication with management and the board about the adequacy of risk governance, management, and control processes.

The internal audit activity provides independent assurance and insight; therefore, its work requires an informed view of how management intends to address key risks, including risk avoidance, acceptance, reduction, sharing, or monitoring. The Global Internal Audit Standards require internal audit planning to be based on a documented assessment of the organization’s strategies, objectives, and risks, and they emphasize evaluating and contributing to the improvement of governance, risk management, and control processes. See the IIA’s Global Internal Audit Standards and its standards resources.

QUESTION NO: 67

An internal auditor conducted interviews with several employees, documented the interviews, analyzed the summaries, and drew a number of conclusions. What sort of audit evidence has the internal auditor primarily obtained?

A. Documentary evidence.

B. Testimonial evidence.

C. Analytical evidence.

D. Physical evidence.

ANSWER: B

Explanation:

Testimonial evidence is correct because the underlying information was obtained through employees’ oral representations during interviews. Interviewees provide explanations, descriptions of processes, accounts of events, and statements about how controls operate; this is testimonial evidence, even when the auditor records it in interview notes or summaries. Documentation preserves the evidence and supports the engagement workpapers, but it does not change the original source and nature of the information from testimony to documentary evidence.

The auditor’s subsequent analysis of the interview summaries is an important part of evaluating the information and forming conclusions. Internal auditors should assess whether information is sufficient, reliable, relevant, and useful for achieving engagement objectives. In practice, testimonial evidence is commonly corroborated with other available information, such as records, system data, observation, or reperformance, to strengthen the basis for conclusions. The primary evidence obtained in the facts given, however, remains the employees’ statements. This aligns with the IIA’s requirement that engagement work be supported by appropriate information and that conclusions be based on an evaluation of that information. See the IIA’s Global Internal Audit Standards and its professional guidance resources.

QUESTION NO: 68

Which of the following would most Holy reflect the best possible engagement objectives?

A. Engagement objectives derived from risk assessment results from a company's risk function experts.

B. Engagement objectives derived from senior management's risk assessment results

C. Engagement objectives derived from the internal audit activity's own risk assessment results

D. Engagement objectives derived from risk assessment results from both senior management and the company's risk function experts

ANSWER: C

Explanation:

Engagement objectives derived from the internal audit activity's own risk assessment results best reflect sound engagement planning because internal auditors are responsible for developing objectives that address the engagement's relevant risks. The engagement risk assessment should be performed with professional judgment and should consider the activity or process under review, its objectives, significant risks, applicable controls, governance arrangements, and the scope needed to provide useful assurance or advice. Information from management, risk specialists, and other stakeholders can be important input to that assessment, but the internal audit activity must independently evaluate that information and determine the objectives that are appropriate for the engagement. This preserves internal audit's objectivity and ensures that the objectives are aligned with the organization's risk-based internal audit plan, the purpose of the engagement, and the nature of the assurance or advisory work being performed. The IIA's Global Internal Audit Standards require engagement planning to be based on an understanding of the relevant risks and to establish objectives that articulate the purpose and intended results of the engagement. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 69

Reviewing internal audit report drafts with clients is:

1. Required according to the Standards.

2. A form of courtesy.

3. Ethically mandated.

4. A form of validation.

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 correct. Discussing a draft report with engagement clients is a professional practice that promotes constructive communication and demonstrates courtesy. It gives management an opportunity to understand the observations, clarify the factual context, and identify whether wording could be misunderstood before the communication is finalized. This collaborative discussion supports an effective working relationship while preserving the internal auditor's responsibility for the engagement conclusions.

The draft-review process is also a form of validation. Internal auditors should base conclusions on sufficient, reliable, and relevant information. Obtaining client feedback on draft observations can help validate factual accuracy, confirm that the condition and its implications are described fairly, and ensure that management's action plans or responses are accurately represented. Validation does not mean management approves, controls, or negotiates away audit results; the chief audit executive and assigned internal auditors retain responsibility for the final communication and conclusions. The IIA's reporting requirements emphasize that final engagement communications must be accurate, objective, clear, concise, constructive, complete, and timely. Draft discussions are a practical means of supporting those quality characteristics. See the IIA's Global Internal Audit Standards and its guidance on supplemental guidance.

QUESTION NO: 70

In which of the following situations has an internal audit of obtained physical evidence?

A. An internal auditor made purchases from several of the organization's retail outlets to evaluate customer service

B. An internal auditor interviewed various employees regarding health and safety issues and recorded their answers

C. An internal auditor obtained the current quarterly financial report and computed changes in deb-to-equity ratio

D. An internal auditor received a signed confirmation regarding the terms of a transaction from an independent attorney

ANSWER: A

Explanation:

“An internal auditor made purchases from several of the organization's retail outlets to evaluate customer service” is the situation in which the auditor obtains physical evidence. Physical evidence is derived from the auditor’s direct observation, inspection, or personal experience of an activity, condition, or process. By making test purchases, often called mystery shopping, the auditor directly experiences the service process and can observe such matters as employee conduct, timeliness, adherence to service procedures, store conditions, and the customer-facing controls operating at the outlet. The auditor’s observations, contemporaneous notes, receipts, and any permitted photographs or recordings provide support for the conclusions reached from that firsthand testing. This approach is particularly useful because it evaluates how a process operates in practice rather than relying solely on what personnel report or what records indicate. The Global Internal Audit Standards require auditors to obtain relevant, reliable, and sufficient information to support engagement results; direct observation performed and documented through test purchases can provide persuasive information for this purpose. See the IIA’s Global Internal Audit Standards and its Standards and Guidance resources.

QUESTION NO: 71

A fast-food company is developing a computer simulation involving arrival time at a drive-through restaurant. The distribution for arrival times is:

Time

Single-Digit Random

Between Arrivals

Probability

Number Assigned

1 minute

0.1

0

2 minutes

0.2

1, 2

3 minutes

0.3

3, 4, 5

4 minutes

0.4

6, 7, 8, 9

Six random numbers are selected to represent the arrival of six cars: 1, 6, 9, 0, 5, 6. The mean time between arrivals for these cars, in this run of the simulation model, is:

A. 1 minute.

B. 2 minutes.

C. 3 minutes.

D. 4 minutes.

ANSWER: C

Explanation:

3 minutes. is correct because each selected random digit must first be converted to an interarrival time using the assigned-number distribution. The digits 1, 6, 9, 0, 5, and 6 represent interarrival times of 2, 4, 4, 1, 3, and 4 minutes, respectively. Their total is 18 minutes. Dividing this total by the six simulated car arrivals gives a sample mean interarrival time of 3 minutes.

This is the standard discrete-event simulation process: random numbers are mapped to outcomes according to cumulative probability intervals, and performance measures are then calculated from the simulated observations. Here, the digit assignments properly reflect the stated probabilities: one digit for a probability of 0.1, two digits for 0.2, three digits for 0.3, and four digits for 0.4. The result is the mean observed in this particular simulation run; it is not necessarily identical to the theoretical expected interarrival time over many runs. For background on using random-number streams in simulation, see NIST/SEMATECH e-Handbook of Statistical Methods and SIMUL8 simulation learning resources.

QUESTION NO: 72

An employee in the sales department completes a purchase requisition and forwards it to the purchaser. The purchaser places competitive bids and orders the requested items using approved purchase orders. When the employee receives the ordered items, she forwards the packing slips to the accounts payable department. The invoice for the ordered items is sent directly to the sales department, and an administrative assistant in the sales department forwards the invoices to the accounts payable department for payment. Which of the following audit steps best addresses the risk of fraud in the cash receipts process?

A. Verify that approvals of purchasing documents comply with the authority matrix.

B. Observe whether the purchase orders are sequentially numbered.

C. Examine whether the sales department supervisor approves invoices for payment.

D. Determine whether the accounts payable department reconciles all purchasing documents prior to payment.

ANSWER: D

Explanation:

Determine whether the accounts payable department reconciles all purchasing documents prior to payment is the strongest audit step because it tests the core control over a purchasing-related cash disbursement: the three-way match. Before releasing funds, accounts payable should compare the authorized purchase order, evidence that the goods or services were received (such as the packing slip or receiving record), and the supplier invoice. This reconciliation provides evidence that payment is supported by a legitimate, authorized purchase and that the organization received the items billed. It helps establish the validity, accuracy, and proper authorization of the obligation before cash is disbursed.

An internal auditor should inspect a representative sample of completed payments and trace each payment back to the related purchase order, receiving documentation, and invoice, while also checking that discrepancies were resolved and documented before payment. The question describes a procure-to-pay process, notwithstanding its reference to cash receipts; therefore, testing the prepayment reconciliation directly addresses the relevant fraud exposure. This approach is consistent with the IIA's requirement that internal auditors evaluate the design and implementation of controls that manage engagement risks. See the IIA Global Internal Audit Standards and the COSO Internal Control guidance.

QUESTION NO: 73

During fieldwork, an internal auditor receives a confidential allegation of possible fraud involving a senior employee in the area under review. Which of the following is the most appropriate initial action?

A. Communicate the allegation promptly through established fraud-reporting protocols

B. Discuss the allegation directly with the senior employee to obtain an explanation

C. Include the allegation in the draft report after normal fieldwork is complete

D. Disregard the allegation unless the auditor personally observes fraud

ANSWER: A

Explanation:

The auditor should **communicate the allegation promptly through established fraud-reporting protocols**. Allegations involving possible fraud, particularly those involving a senior employee, may require restricted handling, preservation of evidence, legal consultation, and direction from appropriate investigative personnel. The auditor should avoid independently expanding procedures in a manner that could compromise confidentiality or alert the subject of the allegation.

The exact reporting route should follow the organization's fraud-response policy and may involve the chief audit executive, legal counsel, ethics or compliance personnel, and the board as appropriate. The IIA Global Internal Audit Standards require timely communication of significant engagement matters to appropriate parties.

QUESTION NO: 74

The balanced scorecard approach differs from traditional performance measurement approaches because it adds which of the following measures?

I. Financial measures.

II. Internal business process measures.

III. Client satisfaction measures.

IV. Innovation and learning measures.

A. I only

B. II and IV only

C. III and IV only

D. II, III, and IV only

E. Financial measures.
II. Internal business process measures.
III. Client satisfaction measures.
IV. Innovation and learning measures.

ANSWER: D

Explanation:

The balanced scorecard expands performance measurement beyond the historically dominant focus on financial results. Therefore, *II, III, and IV only* is correct because it incorporates measures for internal business processes, client or customer satisfaction, and innovation and learning. These perspectives help management evaluate not only the financial outcomes already achieved, but also the operational capabilities and stakeholder outcomes that drive sustainable future performance.

Internal business process measures assess how effectively and efficiently key activities are performed. Client satisfaction measures evaluate whether the organization is delivering value and meeting stakeholder expectations. Innovation and learning measures assess the organization's ability to improve, develop people and systems, and adapt to changing conditions. Together, these measures complement financial indicators by linking strategy to operational execution and future-oriented capability development. Financial measures remain an important balanced-scorecard perspective, but they are not the additional feature that distinguishes the approach from traditional performance measurement. The balanced scorecard framework was developed to balance lagging financial indicators with nonfinancial drivers of future results. See the Harvard Business Review overview of the Balanced Scorecard and Balanced Scorecard Institute's framework overview.

QUESTION NO: 75

The following is a list of major findings in the executive summary report for an audit of the contract management process

- Noncompliance with contract provisions requiring vendors to obtain insurance policies with indemnity value of not less than $1 million

- Compliance with contract obligations and deliverables is not monitored

- No contract agreement with five vendors providing core services

Which of the following is an appropriate conclusion that can be drawn from these findings?

A. These are weaknesses resulting from a lack of a documented contracting policy

B. Substandard service delivery by vendors may not be detected

C. Management should expedite actions to rectify the observations identified

D. The internal controls guiding contract management are not operating effectively

ANSWER: D

Explanation:

The internal controls guiding contract management are not operating effectively is the appropriate overall conclusion because the findings demonstrate failures across key elements of the contract-management control framework. Effective contract controls should ensure that enforceable agreements exist before services are provided, contractual requirements such as insurance are fulfilled and evidenced, and management monitors vendor performance and deliverables throughout the relationship. The absence of agreements for core-service vendors, unaddressed insurance requirements, and missing compliance monitoring collectively indicate that the process is not consistently achieving its control objectives.

An engagement conclusion should synthesize the significance and combined effect of audit findings rather than merely repeat an individual condition or propose a management action. Here, the findings support a process-level conclusion regarding the effectiveness of controls over contract management. This conclusion gives management and the board a clear basis for assessing the related exposure, including legal, financial, operational, and vendor-performance risks, and for determining an appropriate remediation plan. The IIA's standards emphasize communicating engagement results, including conclusions, in a manner that enables management to understand the significance of the work performed and act on it. See the IIA's Global Internal Audit Standards and its guidance resources.

QUESTION NO: 76

Which of the following is true regarding the communication of engagement results with stakeholders?

A. When the chief audit executive (CAE) concludes that management has accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management. If the CAE determines that the matter has not been resolved, the CAE should seek the opinion from regulatory bodies.

B. The CAE should avoid issuing any interim reports, even for high-risk observations, prior to the issuance of the final written report to avoid leakage of sensitive information.

C. It is mandatory for the CAE to assess the potential risk to the organization, consult with senior management and legal counsel as appropriate, and control dissemination by restricting the use of the results prior to releasing them to parties outside of the organization if not otherwise mandated by legal, statutory, or regulatory requirements.

D. The board should always be given the final written internal audit reports at the conclusion of all internal audit engagements. Executive summaries should be avoided in all cases.

ANSWER: C

Explanation:

It is mandatory for the CAE to assess the potential risk to the organization, consult with senior management and legal counsel as appropriate, and control dissemination by restricting the use of the results prior to releasing them to parties outside of the organization if not otherwise mandated by legal, statutory, or regulatory requirements. This reflects the chief audit executive's responsibility to protect confidential, proprietary, and sensitive information while ensuring engagement results are communicated to the appropriate parties. External release of internal audit results can create legal, regulatory, reputational, operational, or confidentiality risks. Accordingly, the CAE should make a deliberate assessment before release, including whether the recipient has a legitimate need for the information, whether disclosure is legally required, and whether restrictions on further use or distribution are necessary.

Consultation with senior management and legal counsel is appropriate because they can help determine applicable disclosure obligations, privileges, privacy requirements, contractual commitments, and the organization's risk tolerance. Controlling dissemination does not prevent required reporting to regulators or other authorized parties; rather, it ensures that communications outside the organization are made lawfully, appropriately, and with suitable safeguards. This approach is consistent with the IIA's requirements for communicating engagement results and for protecting information obtained during internal audit work. See the IIA's Global Internal Audit Standards and its Standards and Guidance resources.

QUESTION NO: 77

During an audit of a customer-service process, an internal auditor determines that customer complaints increased substantially after implementation of a new online portal. Which of the following is the most appropriate initial audit response?

A. Conclude that the online portal caused the increase in complaints

B. Obtain and analyze information to determine the nature and cause of the increase

C. Recommend that management discontinue use of the online portal

D. Exclude customer complaints from the engagement because they are operational measures

ANSWER: B

Explanation:

The auditor should **obtain and analyze information to determine the nature and cause of the increase**. The increase in complaints is an indicator of a potential issue, but it does not by itself establish whether the portal caused the increase, whether the complaints are valid, or whether a control deficiency exists. The auditor should analyze complaint categories, timing, system changes, service volumes, and management's explanations before reaching a conclusion.

Internal auditors are expected to analyze relevant information and exercise professional judgment before developing findings and conclusions. See the IIA Global Internal Audit Standards.

QUESTION NO: 78

The following audit observation was included in the final audit report:

"Our review concluded that bank reconciliation statements for March and April did not show evidence of supervisory review. We recommend strict compliance with the controller's manual, which requires the department head to place their initials on the reconciliation statements to document their review."

Which of the following attributes are missing from the above audit observation?

1. Criteria.

2. Condition.

3. Cause.

4. Effect.

A. 1 and 4 only

B. 2 and 3 only

C. 1, 3, and 4 only

D. 3 and 4 only

ANSWER: D

Explanation:

3 and 4 only is correct. A well-developed audit observation commonly communicates the condition, the applicable criteria, the cause of the condition, and its actual or potential effect or risk. Here, the condition is clearly stated: the March and April bank reconciliation statements did not contain evidence that a supervisor reviewed them. The observation also identifies the criteria by citing the controller's manual requirement that the department head initial reconciliation statements to document that review.

However, the observation does not identify why the required initials were absent. A cause would describe the underlying reason, such as unclear responsibility, inadequate training, a lapse in supervisory procedures, or an ineffective monitoring process. Identifying the cause supports management in designing corrective action that addresses the source of the issue rather than only its visible symptom.

The observation also omits the effect. The effect should explain the consequence or exposure arising from undocumented supervisory review, such as an increased risk that bank-reconciliation errors, unauthorized transactions, or irregularities will not be detected timely. Including cause and effect gives report users sufficient context to assess significance and implement an appropriate response. The IIA's reporting guidance emphasizes communicating engagement results clearly and providing the information needed for management action; see The IIA Global Internal Audit Standards and IIA guidance resources.

QUESTION NO: 79

Which of the following engagement supervision activities should be performed first?

A. Ensure that internal audit recommendations are practical, cost-effective, and value-added

B. Ensure that internal audit conclusions are based on sufficient and reliable evidence

C. Ensure that risks to the timely completion of the engagement are assessed

D. Ensure that performance assessments are completed for audit team members

ANSWER: C

Explanation:

Ensuring that risks to the timely completion of the engagement are assessed should occur first because effective supervision starts while the engagement is being planned and resourced. The engagement supervisor needs an early view of factors that could prevent the work from being completed within its approved scope, schedule, and budget. This includes considering the availability and capability of assigned auditors, the complexity of the subject matter, access to people and records, dependencies on other parties, and potential changes in business conditions. With those risks identified early, the supervisor can adjust the engagement work program, staffing, milestones, review points, and escalation arrangements before delays or resource constraints affect audit quality. This is a continuing responsibility: risks should be reassessed as fieldwork progresses, particularly when evidence, scope, or timing changes. Early assessment provides the basis for timely direction and monitoring throughout the engagement, helping the internal audit function meet its objectives while maintaining conformance with its methodology and quality expectations. The IIA's Global Internal Audit Standards require appropriate engagement planning and supervision to support quality work performed in accordance with the engagement's objectives. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 80

According to IIA guidance, which of the following are acceptable strategies for an internal audit activity (IAA) to establish or build relationships?

A. Assist executives with their administrative and governance responsibilities, and encourage all IAA members to develop relationships with the organization's executives.

B. Assist executives with their administrative and governance responsibilities, and ensure that all communications with the board are formal audit reports or preset agendas.

C. During an engagement, restrict communications with affected executives to matters pertaining to the engagement; and encourage all IAA members to develop relationships with the organization's executives.

D. During an engagement, restrict communications with affected executives to matters pertaining to the engagement; and ensure that all communications with the board are formal audit reports or preset agendas.

ANSWER: A

Explanation:

Assist executives with their administrative and governance responsibilities, and encourage all IAA members to develop relationships with the organization's executives. This is an appropriate relationship-building approach because an effective internal audit activity needs constructive, professional engagement with both senior management and the board while preserving its organizational independence and objectivity. Providing appropriate support on administrative and governance matters helps internal audit understand the organization's strategic direction, significant risks, decision-making processes, and stakeholder expectations. It also enables the chief audit executive to maintain meaningful two-way communication with governance bodies.

Encouraging internal audit team members to develop professional relationships with executives supports open communication throughout audit planning and engagements. Such relationships improve auditors' understanding of operations, facilitate timely access to relevant information, and help ensure that observations and recommendations are practical and aligned with organizational objectives. Relationship building does not mean assuming management responsibility or compromising assurance work; rather, it supports internal audit's trusted-advisor role within the boundaries of the internal audit charter and applicable ethics requirements. The IIA emphasizes that internal auditing enhances governance, risk management, and control through independent, risk-based assurance and advice. See the IIA Global Internal Audit Standards and the IIA Global Guidance.

QUESTION NO: 81

Which of the following conditions should a chief audit executive take into account when deciding if a follow-up audit engagement is necessary?

• The reported observations were significant and high risk.

• Internal audit resources and the time it will require for follow-up.

• Management may not have the resources to take action.

• Management has previously decided not to take any action.

A. 1, 2, and 3 only

B. 1, 2, and 4 only

C. 1, 3, and 4 only

D. 2, 3, and 4 only

ANSWER: B

Explanation:

1, 2, and 4 only is correct. The chief audit executive should apply professional judgment in determining the nature, timing, and extent of follow-up work. Significant, high-risk observations warrant close attention because unresolved issues may expose the organization to material risk or prevent it from achieving objectives. The resources and time required of internal audit are also relevant practical considerations when planning a proportionate and risk-based follow-up approach; follow-up may range from monitoring management's reported status to performing a separate validation engagement. A prior management decision not to take action is particularly important because it may represent acceptance of risk. In that situation, the chief audit executive should ensure the risk acceptance is appropriately understood and addressed through the organization's governance and escalation processes when it exceeds the organization's risk appetite or tolerance. The IIA's Global Internal Audit Standards require the chief audit executive to establish a process to monitor the disposition of engagement results and verify that management actions have been effectively implemented or that management has accepted the risk of not acting. See The IIA Global Internal Audit Standards and The IIA Standards resources.

QUESTION NO: 82

According to IIA guidance, which of the following reflects a valid principle for the internal audit activity to rely on the work of internal or external assurance providers?

A. Elements of evaluation.

B. Elements of organization.

C. Elements of practice.

D. Elements of confidentiality.

ANSWER: C

Explanation:

Elements of practice is correct because IIA guidance on reliance recognizes that the internal audit activity must consider practice-related factors before using another assurance provider's work. These factors concern how the provider performs assurance work in practice, including the methodology applied, the quality and sufficiency of evidence obtained, the scope and timing of the work, the documentation supporting conclusions, and whether the work is performed with appropriate professional care. Evaluating these practical elements allows the chief audit executive and engagement team to determine whether the work is suitable for reliance and whether it can reduce or eliminate the need for duplicate internal audit procedures.

Reliance does not transfer accountability for internal audit conclusions. Internal audit remains responsible for exercising professional judgment, assessing the relevance and reliability of the other provider's work, and documenting the basis for the extent of reliance used. This approach supports coordinated assurance while preserving the independence, quality, and accountability expected of the internal audit activity. The IIA's guidance on assurance coordination and the Global Internal Audit Standards support assessing the quality and usability of assurance work when coordinating with other providers. See the IIA Global Internal Audit Standards and the IIA Practice Guides.

QUESTION NO: 83

An internal auditor discovered fraud while performing an audit of an organization ' s procurement process. Which of the following describes the greatest benefit of using forensic auditing techniques in this scenario?

A. Enhanced capability to prevent frauds from occurring.

B. Greater assurance that procurement frauds will be detected in a timely manner

C. Improved capability of evaluating fraud risks within the organization.

D. Greater understanding of fraud through better evidence collection

ANSWER: D

Explanation:

Greater understanding of fraud through better evidence collection is the greatest benefit because fraud has already been identified and the immediate need is to establish the relevant facts in a reliable, defensible manner. Forensic auditing techniques are designed to identify, obtain, preserve, analyze, and document evidence that may clarify how the procurement fraud occurred, who was involved, the period and transactions affected, the control weaknesses exploited, and the actual or potential loss. This work can involve detailed review of procurement records, vendor information, approvals, communications, payment trails, and relevant electronic data, while maintaining appropriate documentation and chain-of-custody practices. A well-supported factual record enables management, legal counsel, investigators, or other authorized parties to decide on remediation, recovery, disciplinary action, or referral to law enforcement. It also provides a sound basis for communicating conclusions without overstating what the available evidence proves. The IIA's Global Internal Audit Standards require internal auditors to exercise professional skepticism and base engagement conclusions on sufficient, reliable, relevant, and useful information. These principles are especially important when fraud indicators require deeper examination. See the IIA Global Internal Audit Standards and the IIA guidance on Internal Auditing and Fraud.

QUESTION NO: 84

Which of the following is true regarding the monitoring of internal audit activities?

A. The form and content of monitoring policies could vary by industry

B. The board of directors is responsible for the establishment of monitoring polities

C. Both large and small audit departments must have written policies on monitoring.

D. The chief audit executive must develop all monitoring policies related to the activity

ANSWER: A

Explanation:

The form and content of monitoring policies could vary by industry is correct because monitoring is a component of the internal audit activity's quality assurance and improvement program, and its design must be appropriate for the activity and the organization it serves. The chief audit executive should establish arrangements that provide ongoing assurance that internal audit work conforms to applicable standards, follows approved methodologies, and supports continuous improvement. Those arrangements need not look identical in every organization. Industry-specific regulation, risk exposure, organizational complexity, operating model, audit activity size, use of technology, and stakeholder expectations can all affect the most suitable monitoring methods, documentation, review frequency, and reporting format. For example, a highly regulated financial-services organization may need more formalized monitoring evidence and compliance-focused quality reviews than an organization operating in a less regulated environment. The essential requirement is that monitoring is systematic and sufficiently robust to evaluate the quality and effectiveness of internal audit activities; it should be tailored rather than treated as a one-size-fits-all exercise. This principle is reflected in the IIA's requirements for quality assurance and internal assessments, including ongoing monitoring of the internal audit activity. See the IIA's Quality Assurance and Improvement Program standard and Internal Assessments standard.

QUESTION NO: 85

An internal auditor is evaluating the operating effectiveness of a monthly bank-reconciliation review control. Which of the following procedures would provide the most persuasive evidence?

A. Inspect completed reconciliations for evidence of timely review and investigate reconciling items

B. Read the bank-reconciliation procedure approved by the controller

C. Ask the preparer whether reconciliations are reviewed each month

D. Confirm the year-end cash balance directly with the bank

ANSWER: A

Explanation:

Inspect completed reconciliations for evidence of timely review and investigate reconciling items is most persuasive because it evaluates whether the control was performed during the period and whether the review addressed significant differences. Evidence of review may include an authorized signature, electronic approval, or other dated indication of review, supported by follow-up of outstanding or unusual reconciling items.

Merely reviewing the written procedure evaluates design expectations, while inquiry alone does not provide sufficient evidence that the control operated consistently. Internal auditors should use procedures that produce sufficient and reliable evidence for their conclusions. See the IIA Global Internal Audit Standards.

QUESTION NO: 86

During an audit of a retail organization, an internal auditor found a scheme in which the warehouse director and the purchasing agent diverted approximately $500,000 of goods to their own warehouse, then sold the goods to third parties. The fraud was not found earlier since the warehouse director updated the perpetual inventory records and then forwarded receiving reports to the accounts payable department for processing. Which of the following procedures would have most likely led to the discovery of the missing materials and the fraud?

A. Select a random sample of receiving reports and trace to the recording in the perpetual inventory records. Note differences and investigate by type of product.

B. Select a random sample of purchase orders and trace to receiving reports and to the records in the accounts payable department.

C. Take an annual physical inventory, reconciling amounts with the perpetual inventory records. Note the pattern of differences and investigate.

D. Select a random sample of sales invoices and trace to the perpetual inventory records to see if inventory was on hand. Investigate any differences.

ANSWER: C

Explanation:

Take an annual physical inventory, reconciling amounts with the perpetual inventory records. Note the pattern of differences and investigate. This procedure directly tests the existence of inventory independently of records controlled by the warehouse director. In the scheme described, diverted goods were nevertheless entered into the perpetual inventory system, creating recorded quantities that overstated the inventory actually held by the organization. A properly planned physical count would reveal shortages when the independently observed quantities were reconciled to the perpetual records. Material discrepancies, particularly recurring differences involving specific products, locations, or receiving periods, provide persuasive evidence that requires investigation and can lead auditors to identify the diversion pattern.

Physical inventory observation and reconciliation are particularly effective because they compare a real-world condition—goods actually present—to management's recorded assertion of existence. The count should be performed with appropriate auditor oversight, controlled count procedures, documentation of variances, and timely investigation of significant exceptions. This is consistent with the internal audit requirement to develop conclusions from sufficient, reliable, relevant, and useful information, as described in the IIA's Global Internal Audit Standards. It also supports effective control activities over assets, including safeguards and reconciliations, reflected in the COSO Internal Control—Integrated Framework.

QUESTION NO: 87

According to IIA guidance, which of the following activities are typically primary objectives of engagement supervision?

A. Enable training and development of staff, identify engagement objectives, and assign responsibilities to individual auditors.

B. Identify engagement objectives, assign responsibilities to individual auditors, and approve the engagement program.

C. Assign responsibilities to individual auditors, approve the engagement program, and enable training and development of staff.

D. Approve the engagement program, enable training and development of staff, and identify engagement objectives.

ANSWER: C

Explanation:

“Assign responsibilities to individual auditors, approve the engagement program, and enable training and development of staff” is correct because engagement supervision integrates direction, quality oversight, and staff development throughout the engagement. A supervisor allocates work according to each auditor’s competence and experience, ensuring that responsibilities are clear and that the engagement is appropriately staffed. Approval of the engagement program confirms that planned procedures are designed to address the engagement’s objectives and identified risks before the work is performed. Supervision also provides a practical setting for coaching, feedback, and development, strengthening auditors’ capability while the work progresses.

These activities support the core supervisory purpose described in IIA guidance: ensuring that engagement objectives are achieved, work is performed with appropriate quality, and internal audit staff are developed. Supervision is therefore not merely an end-stage review of workpapers; it includes ongoing direction and review, appropriate authorization of the work plan, and constructive support for the engagement team. The IIA’s Global Internal Audit Standards emphasize competent resourcing, quality, and effective management of internal audit engagements. See the IIA Global Internal Audit Standards and the IIA’s Standards resources.

QUESTION NO: 88

An internal auditor wants to determine whether the key risks identified by management in the risk register are reflective of the key risks in the industry. Which of the following techniques would the auditor apply to achieve this goal?

A. Perform benchmarking

B. Perform a trend analysis

C. Perform a ratio analysis

D. Perform observation to gather evidence

ANSWER: A

Explanation:

Perform benchmarking is correct because the objective is to assess management’s risk register against information external to the organization—specifically, the risks that are significant in its industry. Benchmarking compares the organization’s identified risks, risk-management practices, and relevant performance information with those of industry peers, recognized frameworks, professional publications, regulators, and other external sources. This helps the internal auditor determine whether management has identified risks that are commonly material in the sector and whether emerging or sector-specific risks may have been omitted from the register.

This procedure supports a risk-based engagement approach. The Global Internal Audit Standards require internal auditors to understand the organization’s governance, risk management, and control processes and consider relevant internal and external information when assessing risks. Industry comparisons are therefore useful evidence when evaluating the completeness and relevance of management’s risk identification. The auditor should select credible, comparable sources and consider differences in business model, geography, size, regulation, and risk appetite when interpreting the benchmark results. Further information is available in the IIA’s Global Internal Audit Standards and the IIA’s Practice Guides.

QUESTION NO: 89

An internal auditor wants to determine whether employees are complying with the information security policy, which prohibits leaving sensitive information on employee desks overnight. The auditor checked a sample of 90 desks and found eight that contained sensitive information. How should this observation be reported, if the organization tolerates 4 percent noncompliance?

A. The matter does not need to be reported, because the noncompliant findings fall within the acceptable tolerance limit.

B. The deviations are within the acceptable tolerance limit, so the matter only needs to be reported to the information security manager.

C. The incidents of noncompliance fall outside the acceptable tolerance limit and require immediate corrective action, as opposed to reporting.

D. The incidents of noncompliance exceed the tolerance level and should be included in the final engagement report.

ANSWER: D

Explanation:

The incidents of noncompliance exceed the tolerance level and should be included in the final engagement report. Eight instances in a sample of 90 desks represent an observed noncompliance rate of approximately 8.9 percent. This is greater than the organization's stated tolerance of 4 percent, so the condition is significant enough to communicate as an engagement result. The auditor should document the condition, applicable policy requirement, supporting evidence, and the relevant risk created by sensitive information being left unsecured overnight. The engagement communication should also identify the responsible management party and include any agreed management action plans, as appropriate.

Internal audit's role is to evaluate and communicate the results of the engagement; management remains responsible for determining and implementing corrective action. Including the matter in the final engagement report ensures that the appropriate stakeholders receive a clear, complete communication of a control condition that exceeds the organization's accepted level of noncompliance. This approach aligns with the IIA's requirements for communicating engagement results and documenting conclusions supported by sufficient, reliable, relevant, and useful information. See the IIA Global Internal Audit Standards and the IIA's guidance resources.

QUESTION NO: 90

Which is the most appropriate evaluation criterion regarding the quality of audit engagement workpapers?

A. Every workpaper should provide reasonable evidence of work conducted.

B. Every workpaper should result in appropriately worded audit findings.

C. Every workpaper should include a conclusion regarding the likelihood of fraud.

D. Every workpaper should be approved by the engagement client.

ANSWER: A

Explanation:

Every workpaper should provide reasonable evidence of work conducted. Engagement documentation is the record that allows internal audit to demonstrate the work performed, the information obtained and analyzed, the judgments made, and the basis for engagement results. Therefore, a sound quality criterion is whether each workpaper provides support that is sufficient and appropriate for its purpose within the engagement. "Reasonable evidence" recognizes that documentation need not duplicate every activity or prove matters beyond the scope of the procedure; rather, it should enable an experienced internal auditor, with no previous connection to the engagement, to understand the nature, timing, extent, and results of the work performed and the support for conclusions. This criterion also aligns with the requirement to retain relevant information that substantiates engagement communications and supports supervisory review. Good workpapers create a clear audit trail from the engagement objectives and procedures through the evidence evaluated to the resulting conclusions. The IIA's Global Internal Audit Standards address engagement documentation in Standard 14.6, emphasizing documentation that supports engagement results and conclusions. See the IIA Global Internal Audit Standards and the IIA Standards resources.

QUESTION NO: 91

An organization invests excess short-term cash in trading securities Which of the following actions should an internal auditor take to test the valuation of those securities ' *

A. Use the equity method to recalculate the investment carrying value

B. Confirm the securities held by the broker.

C. Perform a calculation of premium or discount amortization.

D. Compare the carrying value with current market quotations

ANSWER: D

Explanation:

Compare the carrying value with current market quotations is the appropriate audit procedure because trading securities are measured at fair value at each reporting date, with changes in fair value generally recognized in earnings. Testing valuation therefore requires the internal auditor to obtain reliable, current pricing information for each security and compare that independently observable market price with the amount recorded in the organization's records and financial statements. For exchange-traded instruments, quoted prices in an active market are ordinarily the strongest evidence of fair value. The auditor should ensure that the quotation is for the identical security, from an appropriate market source, and as of the relevant reporting date. This comparison can identify whether unrealized gains or losses have been recognized and whether the recorded balance reflects current conditions rather than historical cost. In addition, reconciling the aggregate independently priced positions to the general ledger provides evidence that the financial reporting process has appropriately captured the securities' fair-value measurement. Fair-value measurement principles, including the use of quoted prices in active markets when available, are described in FASB ASC Topic 820. The U.S. Securities and Exchange Commission also discusses investments in debt and equity securities and their measurement under applicable accounting guidance in its financial reporting guidance.

QUESTION NO: 92

Which of the following best describes the guideline for preparing audit engagement workpapers?

A. Workpapers should be understandable to the auditor in charge and the chief audit executive.

B. Workpapers should be understandable to the audit client and the board.

C. Workpapers should be understandable to another internal auditor who was not involved in the engagement.

D. Workpapers should be understandable to external auditors and regulatory agencies.

ANSWER: C

Explanation:

Workpapers should be understandable to another internal auditor who was not involved in the engagement. Audit documentation is the record that demonstrates the engagement was planned and performed appropriately, identifies the information obtained and analyses performed, and supports the observations, conclusions, and communicated results. For that record to serve its purpose, it must be sufficiently clear, complete, organized, and self-explanatory for a competent internal auditor who did not perform the work to understand what was tested, how it was tested, what evidence was obtained, who performed and reviewed the work, and how the evidence supports the conclusion. This standard also makes workpapers useful for supervision, quality assurance reviews, follow-up work, and continuity when staffing changes. The requirement is not merely that the engagement team or senior management can interpret the files; the documentation must stand on its own as an appropriate audit trail. The IIA's Global Internal Audit Standards require internal auditors to document relevant, reliable, and sufficient information supporting engagement results, and require engagement documentation to enable an informed, competent internal auditor to understand the work performed and its basis. See the IIA's Global Internal Audit Standards and its standards resources.

QUESTION NO: 93

An internal auditor is conducting a review of the procurement function and uncovers a potential conflict of interest between the chief operating officer and a significant supplier of IT software development services. Which of the following actions is most appropriate for the internal auditor to take?

A. Inform the audit supervisor.

B. Investigate the potential conflict of interest.

C. Inform the external auditors of the potential conflict of interest.

D. Disregard the potential conflict, because it is outside the scope of the audit assignment.

ANSWER: A

Explanation:

Inform the audit supervisor is the most appropriate immediate action because a potential conflict of interest involving a chief operating officer is a significant matter that may affect procurement integrity, vendor selection, contract terms, and the organization's governance and risk-management processes. The internal auditor should promptly escalate the observation through established internal audit reporting lines so that the engagement can be appropriately directed, the matter can be assessed at the proper authority level, and any necessary communications can be made without compromising confidentiality or the auditor's independence.

Escalation enables the audit supervisor or chief audit executive to determine whether the audit scope, procedures, resources, or reporting plan should be adjusted and whether the matter requires notification to senior management, the board, legal counsel, compliance, or another authorized function. Internal auditors exercise due professional care by recognizing indicators of fraud, misconduct, or conflicts and reporting significant issues rather than independently taking actions outside their authority. The IIA's Global Internal Audit Standards emphasize communicating significant risk information and maintaining appropriate reporting relationships. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 94

Which of the following is the primary reason an internal auditor would issue an interim report during an engagement?

A. To provide a status update on a short engagement to management of the area under review and to the audit supervisor.

B. To confirm agreement with preliminary observations and conclusions identified during the engagement.

C. To provide those responsible for the area under review with the opportunity to act on certain observations immediately.

D. To verify that the corrective actions required by senior management are completed as agreed.

ANSWER: C

Explanation:

To provide those responsible for the area under review with the opportunity to act on certain observations immediately is correct because interim communications are intended to bring significant matters to the attention of appropriate management as soon as timely action may be needed. An internal audit engagement does not always need to wait for the final communication when an observation involves an immediate or emerging risk, a significant control weakness, potential loss, legal or regulatory exposure, or another issue for which delay could increase the organization's risk. Promptly communicating the matter enables responsible management to evaluate it and begin corrective action while the engagement continues. This supports the purpose of internal auditing: helping the organization protect and create value through risk-based assurance, advice, and insight. The final engagement communication can then document the completed work, conclusions, recommendations, management action plans, and any follow-up arrangements. The IIA's Global Internal Audit Standards require internal auditors to communicate engagement results to appropriate parties and emphasize communications that are accurate, objective, clear, concise, constructive, complete, and timely. Timeliness is especially important when the information can enable management to address a material matter before harm occurs or grows. See the IIA Global Internal Audit Standards and the IIA Standards resources.

QUESTION NO: 95

A customer has supplied personal information to a bank to facilitate opening an account. The bank is part of a larger group of companies with core businesses including general insurance, life insurance, and investment products. Considering that the customer has closed his only account with the bank and the statutory data retention period has elapsed, which of the following actions by the bank is most likely to align with appropriate data privacy principles?

A. The bank destroys all records containing a customer ' s personal information without informing the customer.

B. Based on an assessment of likely products of interest to the customer, the bank shares the customer's personal information with other companies within the group and informs the customer.

C. The bank retains customer information to facilitate easier verification of personal information in the event that the customer returns to reopen his account. The customer is not informed.

D. The customer ' s personal information is used for market research by an external company and the customer is informed prior to publishing the results of the market research.

ANSWER: A

Explanation:

The bank destroys all records containing a customer ' s personal information without informing the customer. This action best aligns with the core privacy principles of storage limitation and data minimization. Personal data should be retained only for as long as it is necessary to fulfill the purpose for which it was collected or to meet an applicable legal, regulatory, or contractual retention obligation. Here, the customer's account is closed and the statutory retention period has already elapsed. The bank therefore no longer has an identified operational or legal purpose for retaining the personal information associated with that account.

Secure destruction or deletion reduces the risk that personal information will be accessed, disclosed, repurposed, or compromised after the original customer relationship has ended. Appropriate disposal should be implemented using methods proportionate to the form and sensitivity of the information, including secure deletion of electronic records and confidential destruction of physical records. While organizations should maintain transparent privacy notices about their information-handling practices, a separate notification at the point of disposal is not generally necessary when deletion follows the disclosed retention approach and no legal requirement calls for such notice. This outcome is consistent with the GDPR's storage-limitation principle and its right-to-erasure framework; see Regulation (EU) 2016/679, Article 5 and European Commission: data protection rights.

QUESTION NO: 96

According to IIA guidance, which of the following is least likely to be a key financial control in an organization's accounts payable process?

A. Require the approval of additions and changes to the vendor master listing, where the inherent risk of false vendors is high.

B. Monitor amounts paid each period and compare them to the budget to identify potential issues.

C. Compare employee addresses to vendor addresses to identify potential employee fraud.

D. Monitor customer quality complaints compared to the prior period to identify vendor issues.

ANSWER: D

Explanation:

"Monitor customer quality complaints compared to the prior period to identify vendor issues." is least likely to be a key *financial* control in accounts payable. Customer complaints are primarily an operational-quality measure: they help management assess whether goods or services supplied ultimately meet customer expectations. Although the results might inform supplier-management or procurement decisions, this monitoring does not directly address core accounts-payable financial assertions and risks, such as the validity of vendors, authorization of purchases and payments, accuracy of invoice and payment amounts, prevention of duplicate or fraudulent disbursements, proper accounting-period recognition, or safeguarding of cash. A key financial control should be designed to prevent or detect material misstatement, error, or fraud in the financial reporting and payment process. Internal auditors evaluate whether controls are appropriately designed and operating effectively in relation to the engagement's objectives and relevant risks. The IIA's Global Internal Audit Standards emphasize risk-based engagement planning and evaluation of governance, risk management, and control processes. COSO similarly frames internal control around achieving objectives in operations, reporting, and compliance; customer-quality monitoring belongs chiefly to the operations objective rather than the financial-reporting objective. See the IIA Global Internal Audit Standards and COSO Internal Control guidance.

QUESTION NO: 97

Which of the following is an advantage of utilizing an external fraud specialist in a suspected fraud investigation?

A. Increased access to the organization’s employees.

B. Increased ability to preserve evidence and the chain of custody.

C. Increased ability to scrutinize the organization ' s key business processes.

D. Increased access to the organization’s software and proprietary data.

ANSWER: B

Explanation:

“Increased ability to preserve evidence and the chain of custody” is the key advantage because a qualified external fraud specialist brings specialized forensic-investigation skills that may not be available within the internal audit activity or the organization. In a suspected fraud matter, evidence must be identified, collected, secured, analyzed, and documented in a way that protects its integrity. A properly maintained chain of custody records who possessed or handled an item of evidence, when it was transferred, and how it was protected. This disciplined process helps support the reliability of investigative findings and preserves the organization’s ability to use the evidence in disciplinary, regulatory, insurance, or legal proceedings if necessary.

External specialists may also bring experience with forensic imaging, electronic evidence, interview planning, documentation protocols, and coordination with legal counsel. Their independence from the organization’s daily operations can further support a controlled, credible investigation. The IIA’s Global Internal Audit Standards recognize that internal audit may need to obtain competent assistance when the knowledge, skills, or other competencies required for an engagement are not available internally. In suspected fraud investigations, evidence preservation and chain-of-custody practices are a particularly important application of that principle. See the IIA Global Internal Audit Standards and the ACFE fraud resources.

QUESTION NO: 98

After partially completing an internal control review of the accounts payable department, an auditor suspects that some type of fraud has occurred. To ascertain whether the fraud is present, the best sampling approach would be to use.

A. Simple random sampling to select a sample of vouchers processed by the department during the past year.

B. Probability-proportional-to-size sampling to select a sample of vouchers processed by the department during the past year.

C. Discovery sampling to select a sample of vouchers processed by the department during the past year.

D. Judgmental sampling to select a sample of vouchers processed by clerks who were identified by the department manager as acting suspiciously.

ANSWER: C

Explanation:

Discovery sampling to select a sample of vouchers processed by the department during the past year is appropriate because the objective is to determine whether at least one occurrence of a suspected, rare, but significant condition—fraud—exists in the population. Discovery sampling is an attribute-sampling approach designed for situations in which even a single exception can warrant further investigation. The auditor establishes a sample size based on the maximum acceptable rate of occurrence and the desired confidence level, then examines randomly selected vouchers for the relevant fraud indicators. If an occurrence is identified, the auditor has evidence that the condition is present and can expand procedures to determine its nature, extent, parties involved, and impact. If no exceptions are found, the auditor can make a confidence-based conclusion that the incidence of the condition does not exceed the specified tolerable rate. This directly supports an efficient initial test of whether suspected fraud exists, while maintaining a defensible sampling basis. The IIA’s guidance emphasizes that engagement procedures should be sufficient to achieve engagement objectives and that auditors should use appropriate analytical and evaluation techniques. See The IIA Global Internal Audit Standards and the GAO statistical sampling guide.

QUESTION NO: 99

An internal audit function described scenarios of fraud indicators and fraud-related key words. The objective is for this data to serve as an input into algorithms that will forecast potentially fraudulent behavior and prevent the execution of flagged transactions. Which of the following analytic methods is the internal audit function most likely developing?

A. Diagnostic analytics

B. Descriptive analytics

C. Prescriptive analytics

D. Predictive analytics

ANSWER: D

Explanation:

Predictive analytics is the appropriate method because the stated objective is to use known fraud indicators, scenarios, and fraud-related keywords as inputs to algorithms that forecast the likelihood of future fraudulent behavior. Predictive models analyze patterns in historical or labeled data to estimate the probability that a new transaction or activity has characteristics associated with fraud. In this scenario, the model would assign a risk score or flag to transactions before they are completed, enabling a preventive control response, such as stopping the transaction for review. The fact that flagged transactions will be prevented from executing describes how the prediction may be operationalized; it does not change the underlying analytic approach from forecasting likely outcomes. Internal auditors should understand how such models use relevant, reliable data, how thresholds for intervention are governed, and whether model performance is monitored over time. This supports appropriate evaluation of automated controls and fraud-risk management practices. The IIA's Global Internal Audit Standards address the need to consider fraud risks when planning and performing engagements: IIA Global Internal Audit Standards. Additional context on using data analytics in internal auditing is available from IIA Practice Guides.

QUESTION NO: 100

When creating the internal audit plan, the chief audit executive should prioritize engagements based primarily on which of the following?

A. The last available risk assessment.

B. Requests from senior management and the board.

C. The longest interval since the last examination of each audit universe item.

D. The auditable areas required by regulatory agencies.

ANSWER: A

Explanation:

The most recent available risk assessment is the primary basis for prioritizing internal audit engagements because internal audit planning is intended to be risk-based. The chief audit executive uses the organization's objectives, risk-management processes, governance arrangements, and key risks to determine where assurance or advisory work is most needed. A current risk assessment helps ensure that the plan directs limited internal audit resources toward engagements with the greatest potential effect on the organization's ability to achieve its objectives. It also allows the plan to remain responsive when risk exposures, business priorities, systems, or the external environment change.

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, with input from the board and senior management. The plan should therefore reflect the relative significance of risk rather than rely principally on a fixed audit cycle or a single stakeholder-request mechanism. Regulatory requirements and stakeholder requests may appropriately inform the risk assessment and planning process, but the risk assessment provides the central, systematic foundation for engagement prioritization. See the IIA's Global Internal Audit Standards and its Standards resource page.

QUESTION NO: 101

Which of the following scenarios is an example of appropriate engagement supervision?

A. An engagement supervisor provides equal supervision to junior auditors and senior auditors.

B. An engagement supervisor uses internal audit software.

C. The chief audit executive personally supervises each engagement.

D. The engagement supervisor and a team member meet regularly to discuss engagement progress.

ANSWER: D

Explanation:

The engagement supervisor and a team member meeting regularly to discuss engagement progress is appropriate engagement supervision because it provides ongoing direction, communication, and review throughout the work. Effective supervision is not a one-time approval; it is a continuous process that helps ensure the engagement is performed in accordance with the approved plan, internal audit methodology, and applicable professional requirements. Regular progress discussions allow the supervisor to understand work completed, assess whether procedures and evidence remain sufficient and relevant, identify emerging issues or scope changes, address obstacles promptly, and provide coaching tailored to the auditor's experience and competence. These interactions also support timely escalation of significant risks, control concerns, and resource needs. The Global Internal Audit Standards require engagement supervision to ensure that objectives are achieved, work is performed properly, and conclusions are supported. The nature and extent of supervision should be adapted to the proficiency and experience of engagement team members as well as the engagement's complexity. Ongoing meetings are a practical way to document and demonstrate that level of active oversight. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 102

The internal audit activity has adopted the balanced scorecard approach to assess its performance. According to IIA guidance, which of the following is a key performance indicator relevant to the audit client?

A. Percentage of recommendations implemented by corrective action date.

B. Staff experience.

C. Percentage of planned audits completed.

D. Conformance with the International Professional Practices Framework.

ANSWER: A

Explanation:

Percentage of recommendations implemented by corrective action date. is a key performance indicator relevant to the audit client because it measures whether audit results have led to timely management action. Internal audit creates value by communicating practical recommendations and encouraging improvement; implementation by the agreed corrective-action date demonstrates that the client has accepted accountability for resolving the identified issue and is progressing toward the intended control, risk-management, or governance improvement.

In a balanced scorecard for internal audit, measures should be viewed from the perspective of distinct stakeholders. Audit clients are especially connected to the usability of audit work, the practicality of recommendations, and the completion of corrective actions. Tracking implementation timeliness therefore provides meaningful feedback on the extent to which audit engagements support client action and organizational improvement. It also allows the chief audit executive to monitor whether overdue actions require escalation or further follow-up.

This use of recommendation-implementation measures is consistent with internal-audit KPI guidance, including the PEMPAL publication on Key Performance Indicators for Internal Audit, and with the IIA's emphasis on communicating engagement results and monitoring action plans in the Global Internal Audit Standards.

QUESTION NO: 103

Which of the following is most likely to be considered a control weakness?

A. Vendor invoice payment requests are accompanied by a purchase order and receiving report.

B. Purchase orders are typed by the purchasing department using prenumbered forms

C. Buyers promptly update the official vendor listing as new supplier sources become known.

D. Department managers initiate purchase requests that must be approved by the plant superintendent

ANSWER: C

Explanation:

“Buyers promptly update the official vendor listing as new supplier sources become known.” is most likely a control weakness because it combines purchasing authority with the ability to create or change the organization’s approved-vendor or vendor-master information. Buyers commonly influence supplier selection, pricing, and purchasing decisions. Allowing them to update the official listing without an independent authorization and validation process weakens segregation of duties and creates an opportunity for unauthorized, fictitious, or conflicted vendor additions. A buyer could, for example, direct business to a supplier in which the buyer has an undisclosed interest or cause payments to be routed through an improperly established vendor record. Effective control design requires vendor-master additions and changes to be supported by appropriate documentation, approved by personnel with delegated authority, and reviewed independently of procurement decision-making. Audit trails and periodic review of vendor-master changes further help management identify unusual or unauthorized activity. This supports the internal audit function’s evaluation of whether controls adequately manage fraud, compliance, and operational risks, as described in the IIA’s Global Internal Audit Standards. It is also consistent with COSO’s emphasis on assigning control responsibilities and implementing control activities that address risks to organizational objectives: COSO Internal Control guidance.

QUESTION NO: 104

During an interview with a manager in a company's claims department, an auditor noted that the manager became nervous and changed the subject whenever the auditor raised questions about certain types of claims. The manager's answers were consistent with company policies and procedures. When documenting the interview, the auditor should:

A. Document the manager's answers, noting the nature of the nonverbal communication.

B. Document the manager's answers but not the nonverbal communication because it is subjective and is not corroborated.

C. Conclude that the nonverbal communication is persuasive and that sufficient evidence exists to begin a fraud investigation.

D. Disregard the interview entirely because the verbal and nonverbal communications were contradictory.

ANSWER: A

Explanation:

“Document the manager's answers, noting the nature of the nonverbal communication.” is correct because interview documentation should provide a complete, factual, and sufficiently detailed record of information relevant to the engagement. The manager’s observable conduct—becoming nervous and changing the subject in response to particular claim types—is relevant contextual information that may help the audit team assess the reliability and completeness of the information obtained and determine whether additional procedures are warranted. The auditor should record these observations objectively, using neutral descriptions of what occurred rather than characterizing them as proof of misconduct or fraud. For example, the workpapers can state that the manager changed the topic when certain claim categories were raised and displayed observable nervousness, while also documenting that the verbal responses aligned with stated policies and procedures. This preserves evidence supporting the auditor’s professional judgment, enables appropriate supervisory review, and allows the engagement team to follow up through corroborating evidence such as claim files, exception reports, or data analysis. The IIA’s Global Internal Audit Standards require auditors to document information sufficient to support engagement results and conclusions, and they emphasize the exercise of professional skepticism when evaluating information. See the IIA Global Internal Audit Standards and the IIA’s standards resources.

QUESTION NO: 105

An audit identified a number of weaknesses in the configuration of a critical client/server system. Although some of the weaknesses were corrected prior to the issuance of the audit report, correction of the rest will require between six and 18 months for completion. Consequently, management has developed a detailed action plan, with anticipated completion dates, for addressing the weaknesses. Which of the following is the most appropriate course of action for the chief audit executive to take?

A. Assess the adequacy of the action plan and monitor key dates and deliverables.

B. Schedule a follow-up audit engagement to assess the status of corrective action.

C. Reassign information systems auditors to assist the information technology department in correcting the weaknesses.

D. Evaluate statistics related to unplanned system outages, unauthorized access attempts, and denials of service to assess the effectiveness of corrections.

ANSWER: A

Explanation:

Assess the adequacy of the action plan and monitor key dates and deliverables. This is appropriate because management remains responsible for designing and implementing corrective actions, while the chief audit executive is responsible for establishing and maintaining a process to monitor the disposition of engagement results. Given the extended remediation period and the critical nature of the system, the action plan should be evaluated for whether it addresses the reported risks, assigns clear responsibility, contains realistic milestones, and identifies meaningful deliverables or evidence of completion. Monitoring the significant dates and deliverables enables internal audit to obtain timely status information, determine whether implementation remains on track, and escalate overdue or inadequately addressed risks through established reporting channels. This approach provides appropriate assurance while preserving internal audit's independence and avoiding assumption of management responsibility for remediation. The IIA's Global Internal Audit Standards require the chief audit executive to monitor management's implementation of agreed actions or acceptance of risk and to communicate relevant status information to the board and senior management. See the IIA Global Internal Audit Standards and the IIA's International Professional Practices Framework.

QUESTION NO: 106

Which of the following statement is consistent with IIA guidance the use of mentoring for internal auditors?

A. The member and the internal auditor should opt for informal meetings even if it means that no formal documentation will be created.

B. The mentor relationship is usually not suitable for internal audit staff, as it does not leas to professional development.

C. The value of mentoring is derived primarily from the personal relationship between the two parties involved, and the mentor's level of relevant experience should not be a key factor.

D. The mentor should be the internal auditor's supervisor to ensure that the auditor performance is assessed in a relevant and meaningful context.

E. The mentor should generally not be the internal auditor's direct supervisor, because mentoring is intended to provide confidential developmental guidance separate from performance evaluation.

ANSWER: E

Explanation:

"The mentor should generally not be the internal auditor's direct supervisor, because mentoring is intended to provide confidential developmental guidance separate from performance evaluation" is consistent with sound internal audit talent-development practice. Mentoring is a developmental relationship in which an experienced person helps an auditor build professional judgment, technical capability, organizational awareness, and career goals. For that relationship to be useful, the mentee needs to be able to discuss development needs, challenges, and aspirations candidly. Separating the mentor from the person who formally evaluates pay, promotion, or performance supports trust and makes those discussions more open and constructive.

This approach supports the Global Internal Audit Standards' expectation that the chief audit executive establish an internal audit function with the knowledge, skills, and other competencies needed to fulfill its mandate. Structured development activities, including mentoring, help build and retain those competencies. A mentor's relevant experience is important because the mentor should be able to offer informed perspective and practical guidance; however, the relationship need not be a supervisory one. The arrangement may be formal or informal, but its purpose remains professional development rather than employee appraisal. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 107

Checklists used to assess audit risk have been criticized for all of the following reasons except:

A. Providing a false sense of security that all relevant factors are addressed.

B. Inappropriately implying equal weight to each item on the checklist.

C. Decreasing the uniformity of data acquisition.

D. Being incapable of translating the experience or sound reasoning intended to be captured by each item on the checklist.

ANSWER: C

Explanation:

"Decreasing the uniformity of data acquisition." is the exception because a well-designed checklist ordinarily promotes, rather than reduces, uniformity. It gives internal auditors a common set of risk factors, prompts, or criteria to consider when gathering information and assessing risks. This structure helps make the risk-assessment process more consistent across auditors, engagements, locations, and time periods. Consistent data acquisition supports comparable documentation and helps engagement teams demonstrate that significant areas were considered systematically. The checklist is not a substitute for professional judgment: auditors should tailor its use to the engagement, validate information obtained, and assess the relative significance of identified risks. However, its standardizing function is a practical benefit, not a criticism. This aligns with the IIA's requirement that internal auditors develop a documented engagement plan based on an assessment of relevant risks, objectives, and scope considerations. A checklist can be one useful tool for applying that risk-based planning process consistently while still allowing auditors to use their knowledge and judgment. See the IIA's Global Internal Audit Standards and its Standards resource page.

QUESTION NO: 108

After the team member who specialized in fraud investigations left the internal audit team, the chief audit executive decided to outsource fraud investigations to a third party service provider on an as needed basis. Which of the following is most likely to be a disadvantage of this outsourcing decision?

A. Cost.

B. Independence.

C. Familiarity.

D. Flexibility.

ANSWER: C

Explanation:

Familiarity. is the most likely disadvantage because an external fraud-investigation provider may not possess the detailed, organization-specific knowledge that an experienced in-house specialist develops over time. Effective fraud work often depends on understanding the organization's business model, systems, control environment, policies, reporting lines, culture, key personnel, prior incidents, and areas of elevated risk. A provider engaged only when a need arises must spend time obtaining this context, identifying relevant records and stakeholders, and learning how information flows through the organization. That onboarding period can slow the investigation and may affect how efficiently the provider identifies unusual patterns, assesses allegations, and tailors procedures to the organization's circumstances.

The chief audit executive remains responsible for ensuring that internal audit resources are appropriate and sufficient to fulfill the internal audit mandate, including when external service providers are used. Accordingly, the engagement should include clear requirements for knowledge transfer, access to relevant information, confidentiality, coordination, and documentation so the provider can build organizational context over successive assignments. The Global Internal Audit Standards address the chief audit executive's responsibility to manage resources and obtain needed competencies, including through external resources. See the IIA Global Internal Audit Standards and the IIA Practice Guides.

QUESTION NO: 109

During a routine audit of a customer service hotline, an internal auditor noticed that an unusually high number of customer complaints pertained to payments not being applied to the customers' accounts.

Which of the following would most likely be the reason for the high volume of complaints?

A. An ineffective customer service department.

B. Poor controls in the invoice approval processes.

C. Check tampering by an employee.

D. Submission of fraudulent expense reports.

ANSWER: C

Explanation:

Check tampering by an employee. is the most likely reason because complaints that customer payments were made but never credited to their accounts are a classic indicator that received checks may have been intercepted, altered, or diverted before they were processed and posted. In a check-tampering scheme, an employee with access to incoming mail, payment instruments, customer account records, or the cash-receipts process can misappropriate a check and prevent the related payment from being applied. The customer then sees an unpaid balance, receives a collection notice, or contacts the service hotline to dispute the missing credit. The concentration of complaints around unapplied payments is therefore a meaningful fraud red flag rather than merely a service-quality concern. An internal auditor should use this pattern to assess fraud risk and examine the end-to-end receipt, safeguarding, deposit, reconciliation, and account-posting process. Relevant procedures can include tracing selected customer remittances from receipt through bank deposit and posting, reconciling receipt logs to deposits and customer accounts, and investigating unusual delays, reversals, or employee access patterns. The IIA's standards require internal auditors to consider fraud risks when planning and performing engagements; see the Global Internal Audit Standards. The Association of Certified Fraud Examiners also identifies check tampering as an occupational-fraud category: ACFE Fraud 101.

QUESTION NO: 110

Which of the following actions is the most appropriate response for an internal auditor to take when a significant risk is identified during a consulting engagement?

A. Report the risk identified from the consulting engagement to senior management.

B. Do not include the risk in the assessment of risk management processes, as that is management ' s responsibility.

C. Do not report the risk, as it is out of scope for the consulting engagement.

D. Include the risk identified from the consulting engagement in the next annual risk assessment only if it is part of the consulting engagement objectives.

ANSWER: A

Explanation:

Report the risk identified from the consulting engagement to senior management. Consulting services are advisory in nature and do not transfer management's responsibility for identifying, assessing, or responding to risk. However, internal auditors remain professionally responsible for being alert to significant governance, risk management, and control matters that arise while performing the engagement. When such a matter is identified, it must be communicated to the appropriate parties so that those with authority and accountability can evaluate the exposure and determine an appropriate response.

In this situation, the significance of the risk makes communication to senior management necessary. Prompt reporting enables senior management to consider the risk in the broader organizational context, assign ownership, implement mitigating actions where needed, and determine whether escalation to the board is warranted. The reporting should be clear, factual, timely, and consistent with the agreed consulting engagement communication arrangements, while preserving the internal audit activity's objectivity and avoiding assumption of a management role.

This approach is consistent with the IIA's requirements and guidance on communicating significant engagement results and risk-related matters. See the IIA Global Internal Audit Standards and the IIA's Practice Guides.

QUESTION NO: 111

Which of the following approaches to understanding business processes is conducted from a broad organizational perspective and has the greatest risk of overlooking processes that are ultimately critical?

A. Process narrative.

B. Process mapping.

C. Bottom-up.

D. Top-down.

ANSWER: D

Explanation:

Top-down. is correct because this approach begins at the highest organizational level, considering such matters as the organization's mission, strategy, objectives, major risks, and key business units. The auditor then progressively identifies the processes, activities, and controls that support those high-level objectives. This broad perspective is useful for aligning process understanding and audit work with what the organization is trying to achieve, which is consistent with the risk-based focus of internal auditing.

Its principal limitation is that the initial view is shaped by management's high-level structure and stated priorities. Consequently, detailed processes that are not readily visible from the enterprise perspective—such as localized operational dependencies, informal workflows, supporting technology activities, or cross-functional processes—may receive insufficient attention even though they ultimately are critical to achieving objectives or managing risk. Internal auditors should therefore supplement this perspective with sufficient detailed inquiry, walkthroughs, and analysis to ensure the process universe is complete and that significant risks are appropriately recognized.

The IIA's Global Internal Audit Standards require the chief audit executive to establish a risk-based internal audit plan based on an understanding of the organization's strategies, objectives, and risks. See IIA Global Internal Audit Standards and the IIA's Practice Guides.

QUESTION NO: 112

Which of the following would have the least significance in an audit of the efficiency of a driver's license testing facility?

A. Clerical staff administer written tests to allow examiners more time to supervise driving tests.

B. Staff are cross-trained to provide backup for other areas of the facility as required.

C. A point-of-sale cashiering system reduces the need to reenter payment data.

D. Examiners are required to be recertified on an annual basis.

ANSWER: D

Explanation:

“Examiners are required to be recertified on an annual basis.

” has the least significance because annual recertification primarily addresses examiner competence, qualifications, and adherence to required testing standards. Those matters are principally related to the quality, consistency, and reliability of licensing decisions, rather than to how economically the facility converts staff time, systems, and other resources into completed tests and transactions.

An efficiency audit focuses on the relationship between resources consumed and services delivered. Relevant measures may include the number of written or road tests completed per examiner hour, applicant wait times, staffing utilization, rework, transaction-processing time, and avoidable data-entry effort. Annual recertification may create a training-time or administrative cost that can be considered in a broad operational review, but the fact that it is required does not by itself indicate whether the facility’s day-to-day testing process uses resources efficiently. It is therefore less useful as a direct indicator of operational efficiency than information about workflow design, staff deployment, or automated payment processing.

This distinction is consistent with the IIA’s emphasis on evaluating governance, risk management, and controls in relation to engagement objectives and using appropriate criteria and evidence. See the IIA Global Internal Audit Standards and the GAO Green Book.

QUESTION NO: 113

An internal auditor is using attributes sampling to test internal controls. Under which of the following circumstances would the auditor increase the original sample size to estimate error occurrence at a given precision and confidence level?

A. The sample rate of occurrence plus the precision exceeds the acceptable error rate.

B. The sample rate of occurrence is less than the acceptable error rate.

C. The acceptable rate of occurrence less the precision exceeds the sample rate of occurrence.

D. The sample rate of occurrence plus the precision equals the acceptable error rate.

ANSWER: A

Explanation:

The sample rate of occurrence plus the precision exceeds the acceptable error rate is correct. In attributes sampling, the observed sample deviation rate is only an estimate of the deviation rate in the full population. Precision represents the permitted sampling uncertainty around that estimate at the selected confidence level. Consequently, adding the observed occurrence rate and the precision produces an upper estimate of the population’s error occurrence rate. If that upper estimate is greater than the acceptable error rate, the audit evidence does not support a sufficiently reliable conclusion that the control is operating within the organization’s established tolerance. Increasing the sample size can reduce sampling uncertainty, yielding a narrower precision range at the same confidence level and allowing the auditor to develop a more dependable estimate of the population error rate. The auditor should also consider whether the result signals a control deficiency requiring further evaluation, rather than treating a larger sample as an automatic remedy. This approach aligns with the requirement to use sufficient, reliable, relevant, and useful information to support engagement results under the IIA’s Global Internal Audit Standards. See the IIA Global Internal Audit Standards and the GAO Financial Audit Manual for sampling concepts and audit-evidence guidance.

QUESTION NO: 114

Management requested the chief audit executive (CAE) to include an audit of the organization's health and safety program in next year's annual audit plan. However, the internal audit department has no expertise in this area. Which of the following would be the most appropriate action by the CAE?

A. With management's agreement, amend the scope of the audit to ensure that areas examined do not require specialized knowledge and expertise.

B. Meet with management to explain that the audit cannot be undertaken and discuss alternative strategies that can be implemented until internal audit can develop its capability in the area.

C. Accept the request provided management has conducted a thorough risk assessment prior to the engagement to help guide the audit.

D. Advise management that compliance audits of this type should only be conducted by the corresponding regulatory agency to ensure independence.

E. Obtain competent advice and assistance from a qualified health and safety specialist to perform the engagement.

ANSWER: E

Explanation:

The chief audit executive should obtain competent advice and assistance from a qualified health and safety specialist, such as through a co-sourced engagement, an external service provider, or an appropriately qualified individual. Internal audit's responsibility is not limited to subjects for which its current staff already have expertise. Instead, the chief audit executive must ensure that the engagement is performed with the knowledge, skills, and other competencies needed to assess the relevant risks, controls, compliance obligations, and program effectiveness.

Health and safety can involve specialized legal, technical, and regulatory requirements. Using a qualified specialist enables internal audit to address management's request while maintaining a sound, risk-based audit approach. The internal audit function should retain responsibility for engagement planning, supervision, quality, communication of results, and conformance with internal audit requirements; the specialist contributes the technical competence necessary for reliable audit work. This approach directly supports the requirement to secure competent assistance when internal auditors lack the expertise required for an engagement. See the IIA's Global Internal Audit Standards and its overview of the Global Internal Audit Standards.

QUESTION NO: 115

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In order to obtain background information on an assigned audit of data center operations an internal auditor administers control questionnaires to select individuals who have primary responsibilities within the process. Which of the following is a drawback of this approach?

A. It will be difficult to quantify the information obtained through this approach

B. This approach does not help the auditor learn about the existence of controls

C. It takes the auditor a long time to assess the relevant controls using this approach

D. Information on control functionality is limited

ANSWER: D

Explanation:

Information on control functionality is limited. Control questionnaires are useful during planning because they provide a structured, efficient way to gather preliminary information from process owners and identify controls that are represented as being in place. In a data-center audit, responses can help the auditor map areas such as access administration, change management, backup procedures, environmental safeguards, and incident handling. However, a questionnaire response is principally management's description or assertion about the process. It ordinarily does not demonstrate that the stated control was consistently performed, performed by an authorized person, supported by reliable evidence, or capable of preventing or detecting relevant risks in practice. To evaluate functionality, the auditor needs to supplement questionnaire results with procedures such as inquiry, observation, walkthroughs, inspection of configurations and logs, and testing of control operation. This distinction is important because internal audit engagements require sufficient, reliable, relevant, and useful information to support conclusions; questionnaires alone are generally preliminary evidence rather than persuasive evidence of operating effectiveness. The IIA's Global Internal Audit Standards address the need to obtain and assess relevant, reliable, and sufficient information when performing engagements. See the IIA Global Internal Audit Standards and the IIA's mandatory guidance resources.

QUESTION NO: 116

Which of the following statements is true regarding internal control questionnaires (ICQs)?

A. ICQs are most useful in more organic, decentralized organizations with specialized departmental or regional characteristics.

B. An ICQ can be used effectively either by sending it in advance for management of the area under review to complete or by testing each procedure and recording the results.

C. An ICQ is not an efficient tool, as it can only inquire about controls and it does not test them.

D. ICQs are also known as checklist audits and encourage management of the area under review to answer " no " or " yes " more accurately.

ANSWER: B

Explanation:

An ICQ can be used effectively either by sending it in advance for management of the area under review to complete or by testing each procedure and recording the results. Internal control questionnaires provide a structured means of identifying relevant controls, documenting how a process is said to operate, and focusing subsequent audit work on areas that warrant validation. Management may complete the questionnaire before fieldwork, allowing the internal auditor to obtain preliminary information efficiently and prepare targeted follow-up inquiries. Alternatively, the auditor can complete the questionnaire during walkthroughs, interviews, inspection, and other engagement procedures, recording observations and evidence about the operation of each control. In either use, responses should be supported by appropriate audit evidence rather than accepted solely as representations by process owners. This flexibility makes ICQs useful during engagement planning and detailed fieldwork, provided their design reflects the risks, objectives, and control activities of the area being reviewed. The IIA’s Global Internal Audit Standards require auditors to plan and perform engagements using information that is sufficient and appropriate to support conclusions. A well-designed ICQ is one practical tool for systematically gathering and documenting that information. See the IIA Global Internal Audit Standards and the GAO Green Book on internal control.

QUESTION NO: 117

An internal auditor compares real-time gasoline production data to corresponding final gasoline production reports and finds minor but consistent daily discrepancies. If the auditor is concerned about theft, which of the following next steps is most consistent with IIA guidance?

A. Reconcile online data and the final production reports to gasoline sales reports.

B. Contact security personnel as evidence suggests gasoline is being stolen from production premises.

C. Confront the production manager and ask her to explain the differences between real-time and reported data.

D. Review the processes used to collect the production data and to compile the final production reports.

ANSWER: D

Explanation:

Review the processes used to collect the production data and to compile the final production reports. is the appropriate next step because the observed discrepancies are an indicator that requires further objective evaluation, not a conclusion that theft has occurred. The auditor should first determine whether the differences result from data-capture timing, meter calibration, system interfaces, authorized production adjustments, reporting cutoffs, manual entries, or weaknesses in review and reconciliation controls. Examining the end-to-end process establishes the reliability of the information and helps identify where a discrepancy arises, while preserving professional objectivity and due professional care.

IIA standards require internal auditors to base conclusions on sufficient, reliable, relevant, and useful information. A focused review of the collection and reporting processes can produce the evidence needed to determine whether expanded procedures, such as reconciling production to inventory and sales or escalating a substantiated fraud concern, are warranted. This approach also aligns with the auditor’s role of evaluating risk management and control processes rather than prematurely attributing discrepancies to an individual or event. See the IIA's Global Internal Audit Standards and its practice guides for guidance on evidence-based engagement work and evaluating controls.

QUESTION NO: 118

What information would be most useful to an internal auditor who is attempting to identify specific processes to include in the scope of an assurance engagement?

A. Recent organizationwide recognition awards given to employees within the area.

B. The timing of the most recent audit of the area.

C. Management ' s presentation to the board regarding recent area achievements.

D. Recent area performance indicators against productivity metrics.

ANSWER: D

Explanation:

Recent area performance indicators against productivity metrics are most useful because they provide objective, current evidence about how processes are operating and whether results are meeting established expectations. Measures such as output per employee, processing time, error rates, backlog levels, cost per transaction, and service-level attainment can reveal meaningful variances, deteriorating trends, or process bottlenecks. These indicators help the internal auditor focus engagement scope on the specific activities where the likelihood or impact of risk may be higher and where assurance work can provide the greatest value.

Engagement planning requires internal auditors to understand the activity under review and to establish scope sufficient to achieve the engagement objectives. Performance information supports that understanding by connecting individual processes to operational objectives, risk indicators, and management's performance criteria. The auditor can use the information to identify processes for further walkthroughs, risk assessment, control evaluation, and testing, while also considering the reliability and context of the measures. This is consistent with the IIA's requirements that engagement planning be risk-based and aligned with objectives. See the Global Internal Audit Standards and the IIA's International Professional Practices Framework.

QUESTION NO: 119

Which of the following should management action plans include at a minimum?

A. An implementer for the action plan.

B. An owner of the action plan.

C. The internal auditor's next review date of the action plan.

D. Detailed procedures for the action plan.

ANSWER: B

Explanation:

An owner of the action plan. is correct because management action plans must establish clear accountability for addressing agreed engagement findings and recommendations. Assigning an owner identifies the individual who is accountable for ensuring that corrective action is implemented, monitored, and brought to completion. This accountability allows internal audit to follow up effectively and gives the chief audit executive and governing body meaningful information about the status of remediation.

Under the IIA's Global Internal Audit Standards, when management develops an action plan in response to a finding, the plan should identify the person responsible for implementation and include a target completion date. The action-plan owner need not personally perform every task; rather, that person is accountable for coordinating the work, securing needed resources, managing progress, and reporting completion. Clear ownership helps ensure that risk responses are not left unassigned and that overdue actions can be escalated through established follow-up processes. Internal audit may monitor implementation, but management retains responsibility for designing and implementing corrective actions. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 120

Which of the following would help the internal audit activity assess compliance with the organization ' s standard operating procedures for bank deposits during a preliminary survey?

A. Issue an internal control questionnaire to select branch customers.

B. Issue an internal control questionnaire to the president of the organization.

C. Issue an internal control questionnaire to the director of bank operations.

D. Issue an internal control questionnaire to select branch managers.

ANSWER: D

Explanation:

Issue an internal control questionnaire to select branch managers. During a preliminary survey, internal auditors need information from personnel with direct knowledge of how the process is actually performed and how prescribed controls operate in practice. Branch managers normally oversee branch-level cash handling, deposit preparation, custody, timeliness of deposits, supporting documentation, and staff adherence to the organization's operating procedures. Their responses to an internal control questionnaire can therefore help the audit team understand the process consistently across a sample of branches, identify variations in local practices, and focus the engagement's risk assessment and subsequent testing on areas where noncompliance may be more likely.

This approach supports engagement planning because questionnaires are an efficient way to obtain relevant process and control information from responsible operational management before detailed fieldwork begins. The IIA's Global Internal Audit Standards require auditors to assess relevant risks when planning engagements and to obtain sufficient information to support that assessment. Using a selected group of branch managers also provides coverage of the decentralized locations where deposit procedures are executed, rather than relying solely on a high-level enterprise perspective. See the IIA's Global Internal Audit Standards, particularly the engagement-planning requirements, and the IIA's Standards resource page.

QUESTION NO: 121

Which of the following should be included in the scope of an audit of a third-party contractor?

1. Budgets and financial forecasts for the project.

2. Contractor's information and control systems.

3. Contractor's financial position.

4. Progress of the project and costs incurred.

A. 1 and 4 only

B. 1, 2, and 3 only

C. 2, 3, and 4 only

D. 1, 2, 3, and 4

ANSWER: D

Explanation:

1, 2, 3, and 4 is correct because an audit of a third-party contractor should be scoped broadly enough to assess the risks that the contractor could prevent the organization from achieving the contracted objectives. Project budgets and forecasts are relevant to whether anticipated costs, funding needs, and financial assumptions remain reasonable. Reviewing the contractor's information and control systems provides assurance that project data, reporting, authorization, security, and operational processes generate reliable information and are adequately controlled. The contractor's financial position is relevant because financial distress may impair its ability to continue providing contracted services or completing the project. Finally, evaluating project progress and costs incurred allows internal audit to assess delivery against milestones, identify cost overruns or unsupported charges, and determine whether contract performance is consistent with agreed terms.

Together, these areas support a risk-based engagement scope that addresses governance, risk management, control, performance, and financial exposure arising from the third-party relationship. The IIA's Global Internal Audit Standards require engagement planning to establish objectives and scope based on a preliminary assessment of relevant risks. See The IIA Global Internal Audit Standards and The IIA Global Technology Audit Guides.

QUESTION NO: 122

According to the Standards, which of the following is leastimportant in determining the adequacy of an annual audit plan?

A. Sufficiency.

B. Appropriateness.

C. Effective deployment.

D. Cost effectiveness.

ANSWER: D

Explanation:

Cost effectiveness is the least important consideration in determining the adequacy of an annual audit plan. The Standards require the chief audit executive to develop a risk-based internal audit plan that supports the organization's objectives and is based on a documented assessment of strategies, objectives, and risks. Whether the plan can provide the required assurance and advice depends fundamentally on having resources that are appropriate in capability, sufficient in quantity, and effectively deployed to the highest-priority risks and engagements. These factors address whether the internal audit activity can realistically execute the plan with the needed skills, capacity, and assignment of staff. Cost-conscious stewardship remains relevant to managing the internal audit activity, but it does not determine whether the annual plan adequately addresses the organization's significant risks. A plan may be inexpensive yet inadequate if it lacks the skills, coverage, or deployment necessary to fulfill the internal audit mandate. Accordingly, adequacy is driven first by risk coverage and resource fitness rather than by minimizing cost. See the IIA's Global Internal Audit Standards, particularly the requirements for risk-based planning and resource management, and the IIA's standards resource page.

QUESTION NO: 123

A healthcare organization ' s chief audit executive (CAE) noted that the organization ' s IT team relies heavily on a vendor. Therefore an IT vendor assessment review was added to the annual audit plan. During the review, the audit team discovered that the vendor had not been performing proper monitoring to ensure that the subcontractors it hired comply with the organization requirements. The organization ' s chief information officer (CIO) does not agree with the audit team ' s recommendation for the IT team to monitor the compliance level of vendor subcontractors. How should the audit team proceed to resolve this situation?

A. Write a risk acceptance memo for the CIO to sign acknowledging the observation and indicating a willingness to accept the risk.

B. Provide an example of the attestation form that vendors must use. Then, recommend that the IT team require vendors to submit the attestation form on a regular basis.

C. Escalate the issue to the audit committee, as the CIO is unwilling to implement the recommended action plan.

D. Escalate the issue to the CAE to assess whether the CIO ' s reasoning is acceptable.

ANSWER: D

Explanation:

“Escalate the issue to the CAE to assess whether the CIO ' s reasoning is acceptable” is the appropriate next step because the engagement team reports significant observations, management responses, and unresolved disagreements through the internal audit activity’s established supervision and communication process. The CAE is responsible for evaluating whether management’s rationale represents acceptance of a level of risk that may be unacceptable to the organization. This assessment requires consideration of the organization’s risk appetite, the potential consequences of inadequate subcontractor oversight, relevant contractual obligations, and the sensitivity of healthcare-related information and services.

If the CAE concludes that the CIO’s decision may result in the organization accepting an unacceptable level of risk, the CAE first discusses the matter with senior management. If the issue remains unresolved, the CAE communicates it to the board for consideration. Thus, escalation to the CAE is the necessary immediate action; board-level communication is a subsequent step when the CAE determines it is warranted. This preserves appropriate reporting lines while ensuring that potentially unacceptable risk acceptance receives the required governance attention. The IIA’s Global Internal Audit Standards describe the CAE’s responsibility to address management acceptance of risk and, when needed, communicate unresolved matters to the board. See IIA Global Internal Audit Standards and The IIA Standards resources.