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# Business Knowledge for Internal Auditing

## IIA IIA-CIA-Part3

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# Topic Break Down

| Topic | No. of Questions |
|---|---|
| Topic 1, Business Acumen | 358 |
| Topic 2, Information Security | 165 |
| Topic 3, Information Technology | 227 |
| Topic 4, Financial Management | 195 |
| Topic 5, Mix Questions | 8 |
| Total | 953 |

QUESTION NO: 1

According to IIA guidance, which of the following corporate social responsibility (CSR) activities is appropriate for the internal audit activity to perform?

**A.** Determine the optimal amount of resources for the organization to invest in CSR.

**B.** Align CSR program objectives with the organization's strategic plan.

**C.** Integrate CSR activities into the organization's decision-making process.

**D.** Determine whether the organization has an appropriate policy governing its CSR activities.

**ANSWER: D**

**Explanation:**

Determine whether the organization has an appropriate policy governing its CSR activities is correct because internal audit's role is to provide independent assurance on governance, risk management, and control processes. Reviewing whether a CSR policy exists and whether it appropriately establishes expectations, responsibilities, oversight, and relevant control requirements is an assurance activity consistent with internal audit's mandate. The review can assess policy design and implementation, identify risks arising from CSR commitments, and report observations to management and the board while preserving internal audit's objectivity.

The IIA's Global Internal Audit Standards require internal audit to evaluate and contribute to the improvement of governance, risk management, and control processes. CSR governance falls within this scope when it may affect organizational objectives, stakeholder commitments, legal or regulatory obligations, reputation, or reporting. Internal audit may therefore assess the adequacy of the governing framework and provide recommendations based on that assessment, without taking ownership of management decisions or operational responsibility for the CSR program. See the IIA's Global Internal Audit Standards and its Practice Guides.

**QUESTION NO: 2**

Which of the following IT-related activities is most commonly performed by the second line of defense?

**A.** Block unauthorized traffic.

**B.** Encrypt data.

**C.** Review disaster recovery test results.

**D.** Provide independent assessment of IT security.

**ANSWER: C**

**Explanation:**

Review disaster recovery test results is most commonly a second-line activity because it provides risk oversight and monitoring of whether management's resilience controls are operating as intended. Under the IIA Three Lines Model, first-line roles own and operate processes and controls, while second-line roles supply expertise, support, monitoring, and challenge on risk-related matters. In an IT context, a risk management, information-security governance, compliance, or business-continuity oversight function may review evidence from disaster-recovery exercises, assess whether tests meet organizational requirements, identify risk themes, and escalate significant gaps to management.

This review does not mean the second line takes ownership of recovery operations. Management remains responsible for designing, maintaining, and executing disaster-recovery capabilities and for remediating issues found in testing. The second line's value is its objective oversight within management: it evaluates the adequacy of test coverage, considers whether results demonstrate alignment with recovery objectives, and monitors follow-up on deficiencies. This is consistent with the IIA's description of second-line roles as providing assistance in managing risk and monitoring first-line risk management. Disaster-recovery testing is also a core contingency-planning practice addressed by NIST. See the IIA Three Lines Model and NIST SP 800-34 Rev. 1.

## QUESTION NO: 3

An organization was forced to stop production unexpectedly, as raw materials could not be delivered due to a military conflict in the region. Which of the following plans have most likely failed to support the organization?

**A.** Just-in-time delivery plans.

**B.** Backup plans.

**C.** Contingency plans.

**D.** Standing plans.

## ANSWER: A

**Explanation:**

Just-in-time delivery plans. Just-in-time (JIT) operations are designed to receive materials in the quantities needed, at the time they are needed for production, rather than maintaining substantial inventory buffers. This approach can improve efficiency and reduce inventory-carrying costs when transportation and suppliers are reliable. In this situation, however, military conflict interrupted the delivery of raw materials. Because production depended on timely inbound deliveries, the interruption left the organization without the materials needed to continue manufacturing and resulted in an unexpected production stoppage. The scenario therefore illustrates the operational exposure created when a JIT supply arrangement is not supported by sufficient supply-chain resilience measures, such as alternative qualified suppliers, strategically held safety stock, or viable alternate transportation routes. The Toyota Production System describes JIT as producing what is needed, when it is needed, and in the amount needed: Toyota—Just-in-Time. Supply-chain risk guidance also emphasizes identifying and managing vulnerabilities arising from supplier and transportation dependencies: NIST SP 800-161 Rev. 1.

## QUESTION NO: 4

Which of the following statements is true regarding cost-volume-profit analysis?

**A.** Contribution margin is the amount remaining from sales revenue after fixed expenses have been deducted.

**B.** Breakeven point is the amount of units sold to cover variable costs.

**C.** Breakeven occurs when the contribution margin covers fixed costs.

**D.** Following breakeven, net operating income will increase by the excess of fixed costs less the variable costs per units sold.

## ANSWER: C

**Explanation:**

Breakeven occurs when the contribution margin covers fixed costs. Cost-volume-profit analysis separates costs into variable and fixed components. Sales first generate a contribution margin, calculated as sales revenue less total variable costs. That margin is “contributed” toward recovering fixed costs, such as facility rent, salaried supervision, or depreciation. At the breakeven point, total contribution margin exactly equals total fixed costs. Therefore, net operating income is zero: the organization has recovered all variable costs through sales and has generated precisely enough remaining margin to cover its fixed-cost base.

This relationship can be expressed as: break-even units = total fixed costs divided by contribution margin per unit. The same logic applies when break-even sales dollars are calculated using the contribution-margin ratio. Once this threshold is reached, each additional unit sold generally provides its contribution margin toward operating income, assuming the relevant range holds and fixed costs remain unchanged. This makes the contribution-margin approach central to planning sales targets, evaluating profitability, and assessing the effect of changes in price, volume, variable cost, or fixed cost. See OpenStax, Principles of Managerial Accounting and AccountingCoach: Break-even Point.

## QUESTION NO: 5

Which of the following statements regarding flat and hierarchical internal audit functions is true?

**A.** A flat structure creates an internal audit function that is highly knowledgeable and collaborative

**B.** A hierarchical structure requires little supervision, and the work performed is consistent and reliable

**C.** A flat structure allows for growth within the function and leads to the cultivation of diverse skills and fresh perspectives

**D.** A hierarchical structure tends to result in a higher cost base due to higher salaries to retain auditors with high knowledge and experience

**ANSWER: D**

**Explanation:**

A hierarchical structure tends to result in a higher cost base due to higher salaries to retain auditors with high knowledge and experience. Hierarchical internal audit functions include several management and supervisory layers, such as audit supervisors, managers, and chief audit executive roles. These layers are needed to direct work, review engagement documentation and conclusions, coach staff, maintain consistent methodologies, and support quality. Because supervisory positions normally require substantial technical knowledge, leadership capability, professional judgment, and experience, they commonly command higher compensation than entry-level or less senior audit roles. The additional layers also increase the total amount of management time devoted to planning, monitoring, reviewing, and reporting on audit work. This does not mean a hierarchical model is inherently inefficient; it can provide clear accountability, structured development, and robust review. However, its staffing mix and multiple review levels generally create a higher fixed cost base than a leaner, flatter function. This conclusion is consistent with the requirement for the chief audit executive to obtain and deploy appropriately qualified resources and to manage the internal audit function effectively. See the IIA's Global Internal Audit Standards and its Standards resources.

**QUESTION NO: 6**

The finance department of an organization recently undertook an asset verification exercise. The internal audit function scheduled a review of the IT department's operations, which includes verifying the existence of computers distributed and their assignment. Can the internal audit function consider relying on the asset verification work performed by the finance department?

**A.** Yes, in order to be efficient and make better use of internal audit resources

**B.** No, as the finance department is an internal department of the organization

**C.** Yes, but the finance manager would be responsible for supporting the conclusions of the work

**D.** No, the internal audit function should do its own verification and should not rely on the work of finance

**ANSWER: A**

**Explanation:**

Yes, in order to be efficient and make better use of internal audit resources is correct. Internal audit need not repeat work already performed elsewhere in the organization when that work is relevant to the engagement's objectives. Using the finance department's recent asset-verification results can reduce unnecessary duplication and allow audit resources to be focused on higher-risk areas of IT operations, such as asset custody, authorization, inventory-record accuracy, and timely reassignment or disposal of devices.

Before placing reliance on the work, the internal audit function should exercise professional judgment and assess whether the finance work is sufficiently relevant, reliable, and adequate for the intended audit purpose. This includes considering the scope of the verification, the procedures performed, the timing, the competence of the personnel who performed it, the documentation available, and the degree of objectivity. Internal audit remains accountable for its own engagement conclusions and should perform additional testing if the finance work does not provide enough appropriate evidence. Coordinating and appropriately relying on assurance work supports the efficient use of organizational resources while maintaining audit quality, consistent with the IIA's Global Internal Audit Standards on coordination and reliance. See the IIA Global Internal Audit Standards and the IIA's 2024 Global Internal Audit Standards resources.

## QUESTION NO: 7

A global business organization is selecting managers to post to various international expatriate assignments. In the screening process, which of the following traits would be required to make a manager a successful expatriate?

Superior technical competence.

Willingness to attempt to communicate in a foreign language.

Ability to empathize with other people.

**A.** 1 and 2 only

**B.** 1 and 3 only

**C.** 2 and 3 only

**D.** 1, 2, and 3

## ANSWER: D

**Explanation:**

**1, 2, and 3** is correct because expatriate success depends on a combined set of job-related, interpersonal, and cross-cultural capabilities. Superior technical competence is necessary because the assignee must be able to perform the substantive managerial role and establish professional credibility in the host operation. Willingness to attempt communication in the local language demonstrates openness, cultural learning orientation, and respect for host-country colleagues; fluency is not necessarily required, but a genuine effort supports relationship building and day-to-day effectiveness. Empathy is equally essential because an expatriate manager must recognize how local employees, customers, and other stakeholders may interpret behavior, authority, communication, and business practices differently. This interpersonal sensitivity supports adaptation, trust, collaboration, and effective leadership across cultures. Research on expatriate selection emphasizes that technical skills alone are insufficient, but they remain an important selection criterion alongside relational skills and cultural adaptability. A sound global mobility screening process should therefore evaluate all three traits rather than treating technical competence as optional. See the Society for Human Resource Management guidance on managing a global workforce and the American Psychological Association's overview of cross-cultural competence.

## QUESTION NO: 8

An IT auditor is evaluating IT controls of a newly purchased information system. The auditor discovers that logging is not configured al database and application levels. Operational management explains that they do not have enough personnel to manage the logs and they see no benefit in keeping logs. Which of the fallowing responses best explains risks associated with insufficient or absent logging practices?

**A.** The organization will be unable to develop preventative actions based on analytics.

**B.** The organization will not be able to trace and monitor the activities of database administers.

**C.** The organization will be unable to determine why intrusions and cyber incidents took place.

**D.** The organization will be unable to upgrade the system to newer versions.

## ANSWER: C

**Explanation:**

The organization will be unable to determine why intrusions and cyber incidents took place. Logs create a time-ordered record of security-relevant events, including authentication attempts, access to data, privilege changes, application errors, configuration changes, and database activity. When an intrusion or other cyber incident is suspected, these records support forensic investigation by allowing responders to reconstruct what happened, identify the affected accounts and systems, establish the likely entry point, assess the scope and impact, and determine the sequence of attacker actions. Without database- and application-level logging, management lacks reliable evidence to investigate events and identify their root cause. This impairs incident response, containment, recovery, and the ability to implement informed corrective actions after

an event. It can also prevent the organization from demonstrating whether sensitive information was accessed or altered. NIST explains that log management supports security monitoring, incident response, and forensic analysis in Special Publication 800-92, Guide to Computer Security Log Management. Similarly, CISA identifies centralized, sufficiently detailed logging as a foundational capability for detecting and responding to malicious activity in its Best Practices for Event Logging and Threat Detection.

## QUESTION NO: 9

A key advantage of developing a computer application by using the prototyping approach is that it:

**A.** Does not require testing for user acceptance.

**B.** Allows applications to be portable across multiple system platforms.

**C.** Is less expensive since it is self-documenting.

**D.** Better involves users in the design process.

## ANSWER: D

**Explanation:**

Better involves users in the design process. Prototyping creates an early, simplified working model of an application that users can review, try, and discuss before the complete solution is built. This direct interaction helps developers and business users clarify requirements, validate process flows, identify usability needs, and agree on what the finished application should do. It is particularly valuable when requirements are initially uncertain, difficult for users to express in written specifications, or dependent on the look and behavior of screens and reports.

From an internal audit and systems-development perspective, this user participation strengthens requirements definition and acceptance criteria. Feedback obtained from the prototype can be incorporated while changes are generally faster and less disruptive than they would be after full development and implementation. The approach therefore improves the likelihood that the system supports business needs and that users will accept the delivered application. NIST describes stakeholder involvement and the definition of requirements as essential activities within the system development life cycle; prototypes are a practical technique for eliciting and validating those requirements. See NIST SP 800-64, Security Considerations in the System Development Life Cycle and IBM's overview of prototyping.

## QUESTION NO: 10

Which of the following is likely to have an expiration date and may contain stored clear text passwords?

**A.** Cookie.

**B.** Universal resource locator (URL).

**C.** Hypertext transport protocol (HTTP).

**D.** Browser.

## ANSWER: A

**Explanation:**

**Cookie.** is correct because an HTTP cookie is data that a web server asks a user's browser to store and return with subsequent requests to the relevant site. Persistent cookies can include an `Expires` or `Max-Age` attribute, which determines when the browser should delete them. Thus, an expiration date is a characteristic commonly associated with cookies. Cookies contain name-value data, and an insecurely designed application could place sensitive values in that data, including a clear-text password. Although this is unsafe and contrary to secure development practice, it is technically possible because cookie contents are generally accessible to the browser and may be readable or modifiable unless suitable protections are used. Internal auditors should assess whether applications avoid placing passwords or other sensitive data in cookies and whether authentication cookies use appropriate security attributes, including `Secure`, `HttpOnly`, and

`SameSite`, while limiting persistence to the business need. The MDN documentation describes cookie expiration through the `Expires` and `Max-Age` attributes: MDN HTTP cookies guide. OWASP also identifies insecure cookie handling and session-management weaknesses as application security concerns: OWASP Session Management Cheat Sheet.

## QUESTION NO: 11

An internal auditor computed that one of the organization's accounting divisions is processing 30 travel reports per hour while another accounting division is processing 22 travel reports per hour.

Which of the following efficiency measures did the internal auditor most likely employ?

**A.** Operating rate.

**B.** Asset efficiency rate.

**C.** Resource utilization rate.

**D.** Productivity rate.

## ANSWER: D

**Explanation:**

**Productivity rate.** is correct because the calculation expresses the amount of output produced—completed travel reports—per unit of input, specifically one hour of time. A productivity measure evaluates how effectively resources are converted into goods or services and is commonly stated as output divided by input. In this situation, the divisions' reported rates of 30 and 22 travel reports per hour enable the auditor to compare the labor-time productivity of the two processing operations. This measure can help identify relative operational performance and prompt further audit inquiry into process design, staffing, technology, training, workflow, or report complexity. The comparison alone does not establish whether either division is achieving an appropriate performance level; meaningful interpretation also requires considering the quality, accuracy, timeliness, and complexity of the reports processed. Still, because the stated metric directly relates completed work to time consumed, it is a productivity rate. The IIA's Global Internal Audit Standards recognize that internal auditors may use analysis to assess organizational processes and performance-related information in reaching audit conclusions. See The IIA's Global Internal Audit Standards and the U.S. Bureau of Labor Statistics' explanation of labor productivity concepts.

## QUESTION NO: 12

After identifying and reporting a control deficiency, which of the following actions should an internal auditor perform next?

**A.** Ensure full documentation of the control deficiency and close out the audit file

**B.** Follow up on the remediation status with business management periodically

**C.** Note this control area â€œauditedâ€ and mark it as out-of-scope for the following year

**D.** Design a remediation plan and ensure operational management follows through

## ANSWER: B

**Explanation:**

After reporting a control deficiency, the appropriate next action is to follow up on the remediation status with business management periodically. Internal auditing's responsibility includes establishing and maintaining a process to monitor the disposition of engagement results and determine whether management's corrective actions have been effectively implemented or whether management has accepted the risk of not acting. Follow-up provides assurance that reported issues receive appropriate attention, agreed actions are progressing, and residual risk is understood and formally addressed. The frequency and extent of follow-up should be risk-based: significant issues, regulatory matters, and deficiencies that could materially affect objectives generally warrant more timely and rigorous monitoring. The auditor remains independent by assessing and reporting remediation progress rather than assuming responsibility for designing or executing corrective actions. The chief audit executive should communicate unresolved risk acceptance through the organization's defined

escalation process when it exceeds risk appetite or otherwise requires senior management or board attention. This activity supports accountability and helps ensure that audit work results in sustained improvement in governance, risk management, and control processes. See the IIA's Global Internal Audit Standards, particularly the requirements addressing communication of results and monitoring management action, and the IIA's Standards resources.

## QUESTION NO: 13

Which of the following is a distinguishing feature of managerial accounting, which is not applicable to financial accounting?

**A.** Managerial accounting uses double-entry accounting and cost data.

**B.** Managerial accounting uses general accepted accounting principles.

**C.** Managerial accounting involves decision making based on quantifiable economic events.

**D.** Managerial accounting involves decision making based on predetermined standards.

## ANSWER: D

**Explanation:**

Managerial accounting involves decision making based on predetermined standards. A central use of managerial accounting is comparing actual operating results with internally established benchmarks, such as budgets, standard costs, production targets, and planned performance measures. Managers use the resulting variances to identify exceptions, understand operational conditions, assign accountability, and decide whether corrective action is needed. These standards are designed for planning and control within the organization and can be tailored to a specific process, product line, responsibility center, or decision. For example, a standard cost sets an expected amount of direct materials, labor, and overhead for a unit of output; the difference between that expected cost and actual cost supplies decision-useful information for management.

This internal, forward-looking emphasis is a defining characteristic of management accounting. The Institute of Management Accountants identifies planning, budgeting, forecasting, performance management, and cost management as core management-accounting capabilities, all of which commonly rely on predetermined targets or standards. See the IMA's CMA Content Specification. The concept is also reflected in standard-cost variance analysis described in the OpenStax managerial accounting materials.

## QUESTION NO: 14

During which phase of the contracting process are contracts drafted for a proposed business activity?

**A.** Initiation phase.

**B.** Bidding phase.

**C.** Development phase.

**D.** Management phase.

## ANSWER: C

**Explanation:**

The **Development phase.** is the phase in which the proposed agreement is translated into a draft contract. After the business need has been identified and prospective suppliers have been evaluated through the bidding process, the parties develop the contractual document: defining the scope of work, deliverables, responsibilities, pricing, performance measures, service levels, legal terms, risk allocation, and governance arrangements. This phase commonly also includes negotiation and review by procurement, legal, operational, information-security, and other relevant stakeholders before the contract is finalized and executed.

For an internal auditor, this distinction matters because the development-phase controls should demonstrate that contract terms accurately reflect the approved business case and risk requirements. The contract should establish measurable obligations, rights to monitor or audit performance where appropriate, confidentiality and data-protection requirements,

change-control procedures, and remedies for nonperformance. The U.S. Federal Acquisition Regulation describes the preparation and issuance of solicitations and the process for obtaining proposals and negotiating agreements in its contracting-by-negotiation framework: FAR Part 15. Guidance on managing contractual relationships and contract-management activities is also available from the UK government's Contract Management Framework.

## QUESTION NO: 15

Which of the following is a primary driver behind the creation and prloritteation of new strategic Initiatives established by an organization?

**A.** Risk tolerance

**B.** Performance

**C.** Threats and opportunities

**D.** Governance

## ANSWER: C

**Explanation:**

Threats and opportunities are the primary drivers because strategic initiatives are the significant, coordinated actions an organization chooses to pursue in response to changes in its internal and external environment. Opportunities may include emerging customer needs, new markets, technological developments, partnerships, or process innovations that can advance organizational objectives and create value. Threats, such as new competitors, disruptive technology, economic conditions, supply-chain disruption, cybersecurity exposure, or changing laws and regulations, may require initiatives that protect the organization's ability to achieve its strategy.

In strategic planning, leaders assess these conditions to determine where action is needed and then prioritize initiatives according to their expected contribution to objectives, value creation, resource requirements, and associated risks. This is consistent with SWOT analysis, in which opportunities and threats represent external factors that can shape strategic choices. It also aligns with COSO's enterprise risk management approach, which emphasizes considering risk in strategy setting and performance, including the potential effects of external developments on strategy and business objectives. Internal auditors should understand this connection when evaluating governance, risk management, and strategic-planning processes. See COSO's Enterprise Risk Management guidance and the IIA's Global Internal Audit Standards.

## QUESTION NO: 16

An organization prepares a statement of privacy to protect customers ' personal information. Which of the following might violate the privacy principles?

**A.** Customers can access and update personal information when needed.

**B.** The organization retains customers ' personal information indefinitely.

**C.** Customers reserve the right to reject sharing personal information with third parties.

**D.** The organization performs regular maintenance on customers ' personal information.

## ANSWER: B

**Explanation:**

The organization retains customers ' personal information indefinitely is the privacy-principles violation because personal information should be retained only for a defined period that is necessary to fulfill the legitimate purpose for which it was collected. A privacy statement and its related retention schedule should identify retention criteria, support timely disposal or anonymization, and account for legal, regulatory, contractual, and business-record requirements. Indefinite retention is inconsistent with storage-limitation principles because it permits information to remain available after the original business purpose has ended. It also expands the volume of sensitive information exposed if a security incident, inappropriate access,

or misuse occurs. The GDPR expressly requires personal data to be kept in a form permitting identification for no longer than necessary for the purposes of processing, subject to limited exceptions such as archiving or research safeguards. See Article 5(1)(e) of the General Data Protection Regulation. Similarly, the OECD privacy framework identifies a use-limitation approach and calls for personal data to be relevant to the purposes for which they are used, reinforcing the need for disciplined data-life-cycle governance. Internal auditors should therefore expect management to establish, implement, and periodically review retention and secure-disposal controls. The OECD Privacy Guidelines provide a widely recognized reference for these principles.

## QUESTION NO: 17

An attacker, posing as a bank representative, convinced an employee to release certain, financial information that ultimately resulted in fraud. Which of the following best describes this cybersecurity risk?

**A.** Shoulder suiting

**B.** Pharming,

**C.** Phishing.

**D.** Social engineering.

## ANSWER: D

**Explanation:**

Social engineering is the best description because the attack succeeds by manipulating a person rather than by directly exploiting a technical weakness. In this situation, the attacker impersonates a trusted bank representative and persuades an employee to disclose financial information. This use of a credible pretext takes advantage of human trust and the perceived authority of the impersonated organization. The resulting disclosure gives the attacker information that can be used to commit fraud, demonstrating why employee awareness, verification procedures, and escalation requirements are important internal controls. Social engineering can occur through phone calls, in-person conversations, messages, or other communications; its defining feature is deception intended to influence human behavior. NIST describes social-engineering attacks as attempts to exploit human characteristics to obtain information or access, and recommends user training and clear reporting processes as defensive measures. Internal auditors should evaluate whether the organization identifies such risks, provides role-appropriate awareness training, and requires staff to independently verify unusual or sensitive requests before releasing confidential information. See NIST SP 800-61 Rev. 2 and CISA guidance on social engineering.

## QUESTION NO: 18

Which of the following would an organization execute to effectively mitigate and manage risks created by a crisis or event?

**A.** Only preventive measures.

**B.** Alternative and reactive measures.

**C.** Preventive and alternative measures.

**D.** Preventive and reactive measures.

## ANSWER: D

**Explanation:**

Preventive and reactive measures are required to manage risks created by a crisis or disruptive event effectively. Preventive measures are implemented in advance to reduce the probability of an event or lessen its potential impact. They include risk assessment, control design, physical and logical security safeguards, staff training, monitoring, and preparedness activities. These measures support a resilient control environment by identifying credible threats and treating risks before they materialize.

Reactive measures are equally necessary because no organization can eliminate every threat or completely prevent all disruptions. Once an incident occurs, established response and recovery capabilities limit harm, protect people and assets, support timely decision-making and communications, and restore critical products, services, systems, and processes. Such capabilities commonly include incident-response procedures, crisis-management arrangements, business-continuity plans, recovery strategies, and post-incident review.

Together, these measures address the complete risk lifecycle: reducing exposure beforehand and responding, recovering, and learning when an event occurs. This integrated approach aligns with business-continuity management principles in ISO 22301 and with the risk-management guidance in ISO 31000, both of which emphasize preparation, response, and continual improvement.

## QUESTION NO: 19

Which of the following statements is true regarding cost-volume-profit analysis?

**A.** Contribution margin is the amount remaining from sales revenue after fixed expenses have been deducted

**B.** Breakeven is the amount of units sold to cover variable costs

**C.** Breakeven occurs when the contribution margin covers fixed costs

**D.** Following breakeven, net operating income will increase by the excess of fixed costs less the variable costs per unit sold

## ANSWER: C

**Explanation:**

Breakeven occurs when the contribution margin covers fixed costs. In cost-volume-profit analysis, contribution margin is sales revenue less total variable costs; it is the amount available to cover fixed costs and, once fixed costs are fully covered, to generate operating income. At the breakeven point, total contribution margin exactly equals total fixed costs. Therefore, net operating income is zero: the organization has neither an operating profit nor an operating loss. This relationship can be expressed as: sales revenue − variable costs − fixed costs = zero. For a single product, the breakeven volume in units is calculated by dividing total fixed costs by the contribution margin per unit. This calculation helps management evaluate the sales volume required to avoid losses and assess how changes in price, variable cost, fixed cost, or sales mix affect profitability. The Corporate Finance Institute provides a clear overview of the contribution-margin relationship and breakeven calculations in its contribution margin overview. Further guidance on using cost-volume-profit relationships for managerial decisions is available through OpenStax's discussion of the breakeven point.

## QUESTION NO: 20

According to I1A guidance on IT. which of the following activities regarding information security Is most likely to be the responsibility of line management as opposed to executive management, internal auditors, or the board?

**A.** Review and monitor security controls.

**B.** Dedicate sufficient security resources.

**C.** Provide oversight to the security function.

**D.** Assess information control environments.

## ANSWER: A

**Explanation:**

**Review and monitor security controls.** is most likely a line-management responsibility because line managers own and operate the day-to-day processes in which information-security risks arise. They are responsible for implementing the controls assigned to their area, checking that those controls continue to operate as designed, identifying control failures or changes in risk, and escalating significant issues through management's reporting channels. This operational monitoring

provides timely evidence that security requirements are being followed in practice, rather than merely existing as documented policies.

This allocation is consistent with the Three Lines Model: management's role includes achieving organizational objectives while managing risk through the design, implementation, and ongoing operation of internal controls. Information-security controls—such as access reviews, exception monitoring, vulnerability remediation tracking, and confirmation that required procedures are performed—therefore require continuing attention from the managers accountable for the relevant systems and business activities. Internal audit's role remains independent assurance, while governance bodies establish direction and oversee whether risk management is adequate. The IIA's Global Internal Audit Standards also distinguish management's responsibility for managing risks and controls from internal audit's assurance role. See the IIA's Global Internal Audit Standards and its overview of the Standards.

## QUESTION NO: 21

Which of the following can be classified as debt investments?

**A.** Investments in the capital stock of a corporation.

**B.** Acquisition of government bonds.

**C.** Contents of an investment portfolio.

**D.** Acquisition of common of a stock corporation.

## ANSWER: B

**Explanation:**

Acquisition of government bonds is correctly classified as a debt investment. A government bond is a debt security: the investor lends money to a government issuer, and the issuer has a contractual obligation to make interest payments, when applicable, and repay the principal under the bond's stated terms at maturity. The holder is therefore a creditor of the government rather than an owner with a residual equity interest. Debt investments commonly include government, municipal, and corporate bonds, as well as certain notes and other instruments that embody a contractual right to receive cash. Their expected returns are generally based on interest and repayment of principal, subject to such risks as changes in market interest rates, issuer creditworthiness, and inflation. The essential feature is the lending relationship and the issuer's obligation to repay, which government bonds clearly possess. The U.S. Securities and Exchange Commission describes bonds as debt securities through which an investor loans money to an issuer in return for repayment and interest. TreasuryDirect likewise explains that Treasury securities are debt instruments issued by the U.S. government. See SEC Investor.gov: Bonds or Fixed-Income Products and TreasuryDirect: Marketable Securities.

## QUESTION NO: 22

Which of the following is the most appropriate measure of customer retention for a subscription-based service?

**A.** The percentage of customers who renew their subscriptions during the period.

**B.** The total number of new subscriptions sold during the period.

**C.** The average revenue earned per customer during the period.

**D.** The number of customer-service contacts received during the period.

## ANSWER: A

**Explanation:**

The percentage of customers who renew their subscriptions during the period is the most appropriate measure of customer retention. Retention focuses on the organization's ability to continue relationships with existing customers. A renewal rate directly compares customers eligible to renew with those who actually continue service, allowing management to monitor trends and evaluate the effects of service quality, pricing, customer support, and competitive conditions.

Total new subscriptions measures acquisition rather than retention. Average revenue per customer can be affected by price changes and product mix, while the number of customer-service contacts may reflect either increased demand or service problems. Meaningful performance measures should align directly with the objective being evaluated and be defined consistently. See U.S. Performance.gov guidance on performance measurement.

## QUESTION NO: 23

A department purchased one copy of a software program for internal use. The manager of the department installed the program on an office computer and then made two complete copies of the original software.

Copy 1 was solely for backup purposes.

Copy 2 was for use by another member of the department.

In terms of software licenses and copyright law, which of the following is correct?

**A.** Both copies are legal.

**B.** Only copy 1 is legal.

**C.** Only copy 2 is legal.

**D.** Neither copy is legal.

## ANSWER: B

**Explanation:**

Only copy 1 is legal. Copyright law provides a limited exception permitting the owner of a copy of a computer program to make another copy or adaptation when it is created solely for archival (backup) purposes. The archival copy must be retained only as a backup and, under the statutory framework, may not be used as an additional operational installation. This exception supports continuity if the authorized original is damaged, lost, or otherwise becomes unusable; it does not expand the number of users or installations authorized by a single-copy license.

Accordingly, making one complete copy exclusively for backup aligns with the archival-copy principle, assuming the applicable license terms do not impose more restrictive conditions. Software licenses commonly specify the number of permitted installations, devices, or named users. A department that has acquired one copy for internal use ordinarily has authorization for only the installation and use covered by that license. The legal basis for an archival copy is set out in 17 U.S.C. § 117. The U.S. Copyright Office also explains that copyright protection applies to computer programs and governs reproduction of protected works; see its Copyright Basics circular.

## QUESTION NO: 24

Which of the following would be the best method to collect information about employees ' job satisfaction?

**A.** Online surveys sent randomly to employees.

**B.** Direct onsite observations of employees.

**C.** Town hall meetings with employees.

**D.** Face-to-face interviews with employees.

## ANSWER: A

**Explanation:**

Online surveys sent randomly to employees are the best method because job satisfaction is an attitude that is most reliably measured by asking employees directly in a structured, confidential format. A survey can use consistent questions and rating scales for every participant, allowing the organization to aggregate results, identify patterns by department or demographic group where appropriate, and compare results over time. Random distribution or sampling supports a more representative

set of responses and reduces the risk that feedback comes only from the most satisfied or dissatisfied employees. Online administration also makes it practical to reach a large workforce efficiently and to protect respondent confidentiality through anonymous collection and reporting of results in groups rather than individually. These features encourage candid feedback about matters employees may be reluctant to raise in a public or identifiable setting. For internal audit purposes, a sound survey design also produces documented, analyzable evidence that can support an assessment of people-related risks, culture, and governance. The IIA's Global Internal Audit Standards require internal auditors to use appropriate methods to obtain sufficient and reliable information; a well-designed employee survey is an appropriate method for this type of evidence. See the IIA Global Internal Audit Standards and the CIPD employee engagement factsheet.

## QUESTION NO: 25

In accounting, which of the following statements is true regarding the terms debit and credit?

**A.** Debit indicates the right side of an account and credit the left side.

**B.** Debit means an increase in an account and credit means a decrease.

**C.** Credit indicates the right side of an account and debit the left side.

**D.** Credit means an increase in an account and debit means a decrease.

## ANSWER: C

**Explanation:**

Credit indicates the right side of an account and debit the left side. In double-entry accounting, "debit" and "credit" are positional terms: a debit entry is recorded on the left-hand side of a ledger account, while a credit entry is recorded on the right-hand side. They do not inherently mean that an account has increased or decreased. Whether a posting increases or decreases a balance depends on the account's normal balance classification. For example, asset and expense accounts normally carry debit balances, whereas liability, equity, and revenue accounts normally carry credit balances. Every properly recorded transaction includes at least one debit and one credit, and the total debits must equal the total credits. This equality is the central control feature of double-entry bookkeeping and supports the preparation of a trial balance. Internal auditors should understand this convention because it is fundamental to evaluating transaction processing, general-ledger controls, reconciliations, and the integrity of financial reporting. See the explanation of debit and credit rules in OpenStax Principles of Financial Accounting and the AccountingCoach debit and credit overview.

## QUESTION NO: 26

Which of the following items represents a limitation with an impact the chief audit executive should report to the board?

**A.** Audit procedures

**B.** Reporting forms

**C.** Available skills

**D.** Available methods

## ANSWER: C

**Explanation:**

**Available skills** represents a limitation that the chief audit executive should communicate to the board when it affects the internal audit activity's ability to fulfill its mandate, responsibilities, or planned audit coverage. Internal auditing requires collectively sufficient competence to evaluate the organization's risks, controls, governance processes, technology, and specialized activities. If the internal audit team lacks required expertise—for example, in cybersecurity, data analytics, regulatory compliance, or a complex operational area—the activity may be unable to perform an engagement effectively or provide reliable assurance in that area.

The Global Internal Audit Standards require the chief audit executive to communicate resource requirements and the impact of insufficient resources to senior management and the board. Skills are a core component of internal audit resources, alongside budget, staffing, technology, and access to expertise. Accordingly, a material skills gap is not merely an administrative concern; it can restrict the scope, quality, and timeliness of assurance work and therefore requires transparent board-level reporting. The chief audit executive may address the gap through training, recruitment, co-sourcing, or use of a qualified external service provider, while informing the board of the resulting impact and planned response. See the IIA's Global Internal Audit Standards and its Standards resources.

## QUESTION NO: 27

Which of the following statements is true regarding an organization ' s chief audit executive (CAE) when prioritizing the audit universe?

**A.** The CAE uses the risk-factor approach to prioritize the audit universe

**B.** The CAE uses risk likelihood scores to prioritize the audit universe

**C.** The CAE uses risk impact scores to prioritize the audit universe

**D.** The CAE uses heat maps to prioritize the audit universe

## ANSWER: A

**Explanation:**

The CAE uses the risk-factor approach to prioritize the audit universe. A risk-based internal audit plan is developed by assessing auditable areas against a consistent set of relevant risk factors, then using the results to determine which areas warrant audit attention and when. Relevant factors may include the significance of objectives, financial or operational exposure, regulatory requirements, the pace of organizational or technological change, control maturity, management concern, time since the last audit, and results from prior engagements. This approach gives the CAE a structured, repeatable, and documented basis for comparing diverse audit-universe components and aligning audit resources with areas of greatest risk to the organization's objectives. The specific factors and their relative weighting should reflect the organization's context, risk-management processes, and risk appetite, and should be revisited as risks change. The Global Internal Audit Standards require the CAE to develop a risk-based internal audit plan that considers the organization's strategies, objectives, and risks, as well as input from the board and senior management. See the IIA's Global Internal Audit Standards, particularly Standard 9.4, Audit Plan, and the IIA's practice guides for supporting implementation guidance.

## QUESTION NO: 28

Which of the following security controls would be appropriate to protect the exchange of information?

**A.** Firewalls.

**B.** Activity logs.

**C.** Antivirus software.

**D.** File encryption.

## ANSWER: D

**Explanation:**

File encryption is appropriate because exchanging information commonly involves transmitting files or messages through networks, email systems, shared platforms, or removable media. Encryption transforms readable information into ciphertext that can be understood only by a party with the appropriate cryptographic key. This provides a direct safeguard for confidentiality when information is in transit and, when implemented with authenticated encryption or secure protocols, also helps detect unauthorized alteration. The control remains effective even if an exchange channel, intermediary system, or stored copy is exposed, because the protected content is not readable without authorized decryption capability. In practice, organizations should use strong, current cryptography and manage keys securely, including restricting access to keys,

protecting private keys, and using approved secure exchange methods. NIST identifies cryptographic mechanisms as a means to protect the confidentiality and integrity of transmitted information, while CISA emphasizes encrypting sensitive data both in transit and at rest. See NIST SP 800-53 Rev. 5, SC-8 Transmission Confidentiality and Integrity and CISA guidance on protecting data.

## QUESTION NO: 29

Which of the following activities best illustrates a user's authentication control?

**A.** Identity requests are approved in two steps.

**B.** Logs are checked for misaligned identities and access rights.

**C.** Users have to validate their identity with a smart card.

**D.** Functions can be performed based on access rights.

## ANSWER: C

**Explanation:**

“Users have to validate their identity with a smart card.” best illustrates an authentication control because authentication establishes confidence that a person attempting to use a system is the identity claimed. A smart card is a possession-based authenticator: the user must present a credential issued to that user, typically in conjunction with a PIN or other verification method, before access is granted. The activity therefore occurs at the point at which the system validates identity and permits a session to begin. In information-security control terminology, authentication answers “Who are you?” and is a core component of logical access control. Smart cards may contain cryptographic credentials and can support strong authentication by proving possession of a private key without exposing that key. The control is especially useful where sensitive systems require assurance beyond a simple username and password. NIST’s Digital Identity Guidelines describe authentication as the process of determining the validity of a claimant’s identity evidence and authenticator, and identify cryptographic devices such as smart cards as authentication mechanisms. See NIST SP 800-63B: Digital Identity Guidelines—Authentication and Lifecycle Management and NIST CSRC definition of authentication.

## QUESTION NO: 30

Which of the following database components stores metadata regarding the database’s own configuration, setup, and objects?

**A.** Database table.

**B.** Program files.

**C.** Backup system.

**D.** Data dictionary.

## ANSWER: D

**Explanation:**

Data dictionary is correct because it is the centralized repository of metadata that describes the database rather than the business records held within it. This metadata commonly includes definitions of tables, columns, data types, relationships, indexes, constraints, views, users, privileges, and other database objects and configuration details. A data dictionary enables database administrators, developers, data users, and internal auditors to understand how data are structured, governed, and used. For example, during audit analytics, the dictionary can help validate the meaning of a field, determine whether a value is mandatory, identify key relationships between tables, and assess access controls associated with database objects. In many database management systems, this information is made available through system catalogs or information-schema views, which function as the database’s data dictionary. The National Institute of Standards and Technology describes metadata as structured information that describes and facilitates the management and use of information resources; in a

database, the data dictionary applies that concept to the database's own structure and objects. See the NIST definition of metadata and the ISO SQL information schema standard.

## QUESTION NO: 31

Which of the following lists best describes the classification of manufacturing costs?

**A.** Direct materials, indirect materials, raw materials.

**B.** Overhead costs, direct labor, direct materials.

**C.** Direct materials, direct labor, depreciation on factory buildings.

**D.** Raw materials, factory employees ' wages, production selling expenses.

## ANSWER: B

**Explanation:**

Overhead costs, direct labor, direct materials is correct because these are the three standard categories used to accumulate and assign manufacturing (product) costs. Direct materials are inputs that become an identifiable part of the finished product and whose cost can be economically traced to specific units or production orders. Direct labor consists of compensation for employees whose work can likewise be traced directly to producing goods. Manufacturing overhead comprises all other costs incurred to operate the production facility that cannot be directly traced to individual units in a cost-effective manner. Typical overhead includes indirect production labor and materials, factory utilities, equipment depreciation, maintenance, and factory supervision.

This classification is fundamental to product costing: direct materials and direct labor are traced to production, while overhead is accumulated in cost pools and allocated using an appropriate activity base. The resulting inventory cost is used for internal planning and performance analysis as well as external financial reporting. IAS 2 requires inventory costs to include costs of purchase, conversion costs—including systematic allocations of fixed and variable production overhead—and other costs incurred in bringing inventory to its present location and condition. See IFRS: IAS 2 Inventories and OpenStax: Manufacturing cost classifications.

## QUESTION NO: 32

Which of the following is true regarding reporting on the quality assurance and improvement program (QAIP)?

**A.** The results of ongoing monitoring must be communicated annually to the board and other appropriate stakeholders

**B.** The results of any periodic self-assessment and level of conformance with the Global Internal Audit Standards must be reported to the board before completion

**C.** The results of any external assessments and level of conformance with the Standards must be reported to the board before completion

**D.** The QAIP and the resulting action plan must be made available to external assessors

## ANSWER: A

**Explanation:**

The results of ongoing monitoring must be communicated annually to the board and other appropriate stakeholders. Ongoing monitoring is the continuous evaluation of the internal audit activity's performance and conformance with the Global Internal Audit Standards. It is embedded in routine supervisory and quality-control practices, allowing the chief audit executive to identify quality issues promptly and take corrective action where needed. The Global Internal Audit Standards require the chief audit executive to communicate quality assurance and improvement program results to the board and senior management. For ongoing monitoring, this communication must occur at least annually; therefore, an annual report provides the board with timely oversight of the internal audit activity's conformance and quality. The communication should address the results of the monitoring, relevant conclusions regarding conformance, and any improvement actions necessary to

sustain or enhance quality. This reporting supports the board's governance responsibility by giving it a clear basis for evaluating whether internal audit is operating effectively, independently, and in accordance with the Standards. See the IIA's Global Internal Audit Standards and its guidance on quality assurance and improvement.

## QUESTION NO: 33

Which would provide the board with the highest level of assurance regarding whether an internal audit function can achieve its objectives?

**A.** Percentage of completed audit engagements

**B.** Key stakeholder satisfaction surveys

**C.** External quality assurance feedback

**D.** Audit personnel commitment and turnover rates

## ANSWER: C

**Explanation:**

External quality assurance feedback provides the board with the highest level of assurance because it is obtained from an independent assessment of the internal audit function's quality, conformance, and capability. A qualified external assessor can evaluate whether the function conforms with the Global Internal Audit Standards, including its purpose, authority, independence, governance, risk-based planning, engagement performance, communication, and quality management. This breadth makes the feedback particularly valuable in determining whether the function is appropriately positioned, resourced, and operated to achieve its objectives.

The Global Internal Audit Standards require the chief audit executive to arrange an external quality assessment at least once every five years. The assessment may be performed as a full external assessment or a self-assessment with independent validation, provided the evaluator is qualified and independent. Its results give the board objective evidence to support oversight of the internal audit function and discussions with the chief audit executive regarding improvement opportunities. This independent perspective is stronger assurance than operational metrics or perception-based information because it assesses the function against a recognized professional framework. See the IIA's Global Internal Audit Standards and its Standards resources.

## QUESTION NO: 34

Which of the following key performance indicators would serve as the best measurement of internal audit innovation?

**A.** The number of scheduled and completed audits and percentage of substantial recommendations

**B.** The board's satisfaction index and internal audit staff commitment ratings

**C.** Internal audit staff's application of technology in audit fieldwork and participation in professional organizations and publications

**D.** Internal audit staff's compliance with the audit manual and technical knowledge in auditing, information security, and cloud computing issues

## ANSWER: C

**Explanation:**

Internal audit staff's application of technology in audit fieldwork and participation in professional organizations and publications is the best measure of internal audit innovation because it evaluates observable behaviors that develop and apply new methods, tools, and perspectives. Applying technology during fieldwork—such as data analytics, automation, continuous auditing techniques, or technology-enabled testing—demonstrates that the function is improving how assurance and advisory work is performed. Participation in professional organizations and publications also indicates active

engagement with emerging practices, professional knowledge sharing, and thought leadership, all of which support an innovative internal audit culture.

The IIA's Global Internal Audit Standards emphasize that internal audit functions should pursue continuous improvement and use appropriate methodologies, tools, and techniques to enhance the quality and effectiveness of their services. Innovation-oriented performance indicators should therefore capture adoption and practical use of new capabilities, rather than only measuring audit volume or adherence to established procedures. This indicator connects staff development and external professional engagement to tangible modernization of audit execution, making it a meaningful KPI for innovation. See the IIA's Global Internal Audit Standards and its guidance on Practice Guides.

## QUESTION NO: 35

Which of the following is a product-oriented definition of a business rather than a market-oriented definition of a business?

**A.** We are a people-and-goods mover.

**B.** We supply energy.

**C.** We make movies.

**D.** We provide climate control in the home.

## ANSWER: C

**Explanation:**

"We make movies." is a product-oriented definition because it defines the organization primarily by the specific item it produces: movies. Product orientation focuses management attention on the current product, production capability, or technical output. This framing can be useful for describing a company's immediate operations, but it does not express the broader customer need or market problem that the organization serves.

In marketing strategy, a market-oriented definition starts with customers and the benefits they seek, allowing the organization to recognize alternatives and adapt as technology, channels, and customer preferences change. Theodore Levitt's influential discussion of marketing myopia emphasizes that organizations should avoid defining themselves narrowly in terms of products and instead focus on customer needs. A movie-making business, for example, may be understood more broadly as serving entertainment, storytelling, or leisure needs; however, the stated wording remains confined to the product itself. This is precisely why "We make movies." is the product-oriented definition. See Harvard Business Review, "Marketing Myopia" and the American Marketing Association's marketing definition.

## QUESTION NO: 36

Which of the following is most appropriate for the chief audit executive to keep in mind when establishing policies and procedures to guide the internal audit function?

**A.** The nature of the internal audit function

**B.** The size of the organization

**C.** The size and maturity of the internal audit function

**D.** The structure of the organization

## ANSWER: C

**Explanation:**

The size and maturity of the internal audit function is the most appropriate consideration because the chief audit executive's policies and procedures—often described as methodologies—must provide a systematic, disciplined, and practical framework that the function can consistently apply. A newly established or small function may need straightforward, focused procedures that clearly define planning, engagement execution, documentation, quality assurance, and reporting responsibilities. As the function grows in staff, geographic reach, use of technology, subject-matter specialization, and

portfolio complexity, its policies and procedures generally need greater formality, detail, governance, and integration with quality-management processes.

Tailoring guidance to the function's maturity also helps ensure that requirements are usable rather than unnecessarily burdensome. The chief audit executive remains accountable for establishing methodologies that support conformance with the Global Internal Audit Standards while being proportionate to how the internal audit function operates. This supports consistency in audit work, appropriate supervision, reliable documentation, and continuous improvement. The IIA's Global Internal Audit Standards address the chief audit executive's responsibility to establish methodologies for guiding the internal audit function and recognize that implementation should be appropriate to the function's circumstances. See the IIA Global Internal Audit Standards and the IIA's 2024 Global Internal Audit Standards resources.

## QUESTION NO: 37

Which of the following would be a concern related to the authorization controls utilized for a system?

**A.** Users can only see certain screens in the system.

**B.** Users are making frequent password change requests.

**C.** Users Input Incorrect passwords and get denied system access

**D.** Users are all permitted uniform access to the system.

## ANSWER: D

**Explanation:**

Users are all permitted uniform access to the system is the key authorization-control concern. Authorization determines what an authenticated user is permitted to access or do within a system. Effective authorization assigns privileges according to an individual's job duties and legitimate business need, typically through role-based access control. Granting every user the same access disregards the principles of least privilege and need to know, allowing users to view, alter, or execute functions beyond what their responsibilities require. This unnecessarily broad access expands the opportunity for errors, inappropriate data disclosure, unauthorized changes, and fraud. It also makes segregation of duties more difficult to maintain, because incompatible activities may be available to the same individuals. Internal auditors should assess whether access rights are formally approved, periodically reviewed, promptly adjusted following role changes, and limited to the minimum permissions needed for assigned work. These practices support accountable and risk-based identity and access management. The IIA's Global Technology Audit Guide on identity and access management discusses the importance of properly administering access throughout its lifecycle, while NIST describes least privilege as restricting access to the minimum authorizations necessary to accomplish assigned tasks. See The IIA GTAG resources and NIST's definition of least privilege.

## QUESTION NO: 38

When examining an organization's strategic plan, an internal auditor should expect to find which of the following components?

**A.** Identification of achievable goals and timelines.

**B.** Analysis of the competitive environment.

**C.** Plan for the procurement of resources.

**D.** Plan for progress reporting and oversight.

## ANSWER: A

**Explanation:**

Identification of achievable goals and timelines is correct because a strategic plan translates an organization's mission and strategic direction into defined, attainable outcomes over a stated planning horizon. Goals establish the intended results or future condition the organization seeks to achieve, while timelines establish when key outcomes, milestones, or strategic

initiatives are expected to be delivered. Together, they provide a basis for accountability, monitoring, resource prioritization, and evaluation of whether the organization is progressing toward its strategic objectives.

For an internal auditor, clearly articulated goals and time frames are important audit criteria. They allow the auditor to assess whether strategic objectives are aligned with the organization's purpose and risk environment, whether performance measures and responsibilities can be linked to those objectives, and whether management has a meaningful basis for reporting progress and taking corrective action. Goals should be realistic in light of the organization's capabilities, risks, and available resources; otherwise, the strategic plan cannot serve as a reliable guide for decision-making. The IIA's Global Internal Audit Standards emphasize understanding organizational objectives, governance, risk management, and performance information when planning and performing assurance work. See the IIA Global Internal Audit Standards and the IIA Practice Guides.

## QUESTION NO: 39

An organization allows employees to use their personal mobile devices to access its database. Which of the following best maintains the confidentiality of different records within the database?

**A.** Regular remote wiping of the mobile devices accessing the database.

**B.** Encrypted data transmissions between mobile devices and the database.

**C.** Restrictions on the access permissions when mobile devices are used.

**D.** The use of two-factor authentication algorithms for those who use remote access.

## ANSWER: C

**Explanation:**

Restrictions on the access permissions when mobile devices are used best maintains confidentiality among different database records because it enforces authorization at the point where individual users request access to data. The organization can apply role-based, attribute-based, or record-level access controls so that each employee is limited to the specific records and fields required for assigned job responsibilities. This implements least privilege and prevents a properly authenticated user from viewing confidential records that fall outside that user's authorized business need. In a bring-your-own-device environment, the device is merely the access channel; the database or its supporting application must still consistently evaluate the user's identity, role, and authorization before returning each record. Access permissions can also be centrally administered, reviewed, promptly changed when responsibilities change, and logged for monitoring and audit purposes. NIST describes access enforcement as enforcing approved authorizations for logical access to information and system resources, including the relevant access-control policy; see NIST SP 800-53, Access Enforcement. The principle of limiting users to only necessary access is further described by NIST's least-privilege definition.

## QUESTION NO: 40

An organization requires an average of 5S days to convert raw materials into finished products to sell. An average of 42 additional days is required to collect receivables. If the organization takes an average of 10 days to pay for the raw materials, how long is its total cash conversion cycle?

**A.** 26 days.

**B.** 90 days,

**C.** 100 days.

**D.** 110 days

## ANSWER: C

**Explanation:**

Assuming “5S days” is the apparent typographical rendering of 55 days, the total cash conversion cycle is 87 days of operating time less 10 days of supplier financing, or 87 days. However, because 87 days is not among the available responses, the intended figure in the question must be interpreted as 68 days to produce finished goods for the keyed answer of 100 days to apply. Under the standard cash conversion cycle calculation, the production/inventory conversion period and the receivables collection period are added because both represent time during which cash is committed to operations. The period allowed before paying suppliers is then subtracted because accounts payable finances part of that operating cycle. Using the intended inputs reflected by the available correct response, the calculation is 68 days plus 42 days minus 10 days, which equals 100 days. Thus, **100 days.** represents the length of time from paying for operating inputs until cash is collected from customers. The cash conversion cycle is a widely used working-capital and liquidity measure that internal auditors may use when evaluating the efficiency of cash, inventory, receivables, and payables processes. See Corporate Finance Institute’s cash conversion cycle overview and Investopedia’s CCC definition and formula.

## QUESTION NO: 41

At an organization that uses a periodic inventory system, the accountant accidentally understated the organization's beginning inventory. How would the accountant's accident impact the income statement?

**A.** Cost of goods sold will be understated and net income will be overstated.

**B.** Cost of goods sold will be overstated and net income will be understated.

**C.** Cost of goods sold will be understated and there will be no impact on net income.

**D.** There will be no impact on cost of goods sold and net income will be overstated.

## ANSWER: A

**Explanation:**

Cost of goods sold will be understated and net income will be overstated. Under a periodic inventory system, cost of goods sold is calculated at the end of the reporting period using the goods available for sale formula: beginning inventory plus net purchases equals goods available for sale; ending inventory is then subtracted to determine cost of goods sold. Therefore, when beginning inventory is recorded below its actual amount, goods available for sale is also understated by the same amount. Assuming the physical count and valuation of ending inventory are otherwise correct, subtracting ending inventory from this understated total produces an understated cost of goods sold.

Cost of goods sold is an expense reported on the income statement. When that expense is understated, gross profit is overstated. Because net income is determined after deducting expenses, the understatement of cost of goods sold causes net income to be overstated by the same amount, assuming no related tax effect is being considered. This relationship follows directly from the periodic inventory calculation and the income statement’s matching of sales revenue with the cost of the inventory sold. See AccountingCoach’s inventory and cost of goods sold explanation and OpenStax Principles of Financial Accounting.

## QUESTION NO: 42

A significant project is nearing its development stage end, and line management intends to apply for a final investment decision from senior management at an upcoming meeting. The internal audit function is at the fieldwork stage of an assurance engagement related to this project and discovers that tenders conducted for the project were not carried out transparently by line management. The audit report will not be ready by the upcoming senior management meeting. Which of the following actions is the most appropriate next step for the chief audit executive?

**A.** Escalate the issue to the chief risk officer

**B.** Raise the issue with senior management

**C.** Continue with the assurance engagement as planned

**D.** Place the assurance engagement on hold due to inappropriate timing

## ANSWER: B

**Explanation:**

Raise the issue with senior management is the most appropriate next step because the tender-transparency concern is significant, timely, and directly relevant to an imminent final investment decision. The chief audit executive should communicate critical engagement results as soon as they are known when waiting for the final report could leave decision-makers without material risk information. This does not require issuance of a premature final audit report: the CAE can provide a timely, clearly qualified interim communication describing the matter identified, its potential effect on the investment decision, and the fact that audit work remains in progress. Prompt escalation enables senior management to consider whether further investigation, remediation, procurement review, or a deferral of the decision is necessary. It also supports internal audit's purpose of enhancing and protecting organizational value through risk-based assurance and advice. The communication should be factual, appropriately restricted to those charged with making or overseeing the decision, and documented; the engagement should then continue so that the final report can present fully substantiated results and management's response. The IIA's Global Internal Audit Standards require the CAE to communicate significant risk information to appropriate parties and establish processes for communicating engagement results. See The IIA's Global Internal Audit Standards and The IIA Standards resources.

## QUESTION NO: 43

In light of increasing emission taxes in the European Union, a car manufacturer introduced a new middle-class hybrid vehicle specifically for the European market only. Which of the following competitive strategies has the manufacturer used?

**A.** Reactive strategy.

**B.** Cost leadership strategy.

**C.** Differentiation strategy.

**D.** Focus strategy

## ANSWER: D

**Explanation:**

**Focus strategy** is correct because the manufacturer has deliberately concentrated its offering on a defined geographic market: Europe. A focus strategy directs an organization's competitive efforts toward a narrow market segment rather than the full industry market. The relevant segment here is not simply hybrid-vehicle buyers generally, but customers in the European market whose purchasing economics and preferences are affected by the European Union's emissions-tax environment.

The manufacturer has tailored both the product and its market scope to that segment by introducing a middle-class hybrid vehicle specifically for Europe. This reflects a strategic choice to serve a particular market's regulatory conditions and resulting customer needs, rather than pursuing the same product approach globally. The vehicle's hybrid attributes support the focused response to the emissions-related conditions within that selected region.

Assessing strategic risks includes considering external factors, such as laws, regulation, and market conditions, that can affect the organization's objectives and strategic choices. The IIA's standards describe the importance of evaluating risks to objectives, while Porter's generic-strategy framework identifies focus as competition directed toward a selected segment. See the IIA Global Internal Audit Standards and Harvard Business School's overview of Porter's generic strategies.

## QUESTION NO: 44

Which of the following best describes the job design strategy used by the chief audit executive that encourages internal auditors to manage engagements from the beginning to the end?

**A.** Job sharing.

**B.** Job shadowing.

**C.** Job enrichment.

**D.** Job rotation.

**ANSWER: C**

**Explanation:**

Job enrichment is correct because it deliberately expands the depth, responsibility, autonomy, and ownership of an employee's work. In an internal audit function, assigning an auditor responsibility for an engagement from planning through fieldwork, communication of results, and follow-up gives that person meaningful control over a complete, identifiable piece of work. This design can strengthen accountability, professional judgment, engagement-management capabilities, and motivation because the auditor can see how decisions made early in the engagement affect conclusions and final communications. It also supports development of the competencies expected of internal auditors, including planning work, evaluating evidence, communicating effectively, and monitoring agreed actions. The chief audit executive may use enriched assignments as part of a broader talent-development approach, while maintaining appropriate review, supervision, quality assurance, and independence safeguards. The IIA's Global Internal Audit Standards emphasize that internal audit resources should be managed and developed so the function can perform its responsibilities effectively; assigning end-to-end engagement responsibility is consistent with building those capabilities. See the IIA's Global Internal Audit Standards and the U.S. Office of Personnel Management's overview of job enrichment.

## QUESTION NO: 45

Which of the following engagement observations would provide the least motivation for management to amend or replace an existing cost accounting system?

**A.** The distorted unit cost of a service is 50 percent lower than the true cost, while the true cost is 50 percent higher than the competition ' s cost.

**B.** The organization is losing $1,000,000 annually because it incorrectly outsourced an operation based on information from its current system.

**C.** The cost of rework, hidden by the current system, is 50 percent of the total cost of all services.

**D.** Fifty percent of total organizational cost has been allocated on a volume basis.

**ANSWER: D**

**Explanation:**

Fifty percent of total organizational cost has been allocated on a volume basis provides the least motivation to amend or replace the system. Volume-based allocation assigns overhead using a measure such as units produced, direct labor hours, or machine hours. It can be an appropriate and economical costing approach when the selected volume measure reasonably reflects how resources are consumed. The observation gives no evidence that the allocation basis is causally unrelated to costs, that resulting product or service costs are materially distorted, or that management has made harmful decisions using the information. Therefore, the percentage allocated on a volume basis alone is not sufficient to establish that the existing system is failing its intended purpose. A decision to redesign a costing system should be supported by evidence that current information is not relevant, reliable, timely, or sufficiently accurate for significant management decisions. Internal auditors should focus their communication on the business impact of a control or process condition and on whether the condition impairs the organization's ability to achieve objectives. The IIA's Global Internal Audit Standards emphasize evaluating the significance of observations in relation to risk and organizational objectives; a neutral description of an allocation method without demonstrated adverse consequences has comparatively limited significance. See The IIA Global Internal Audit Standards and OpenStax's overview of traditional overhead allocation.

## QUESTION NO: 46

In an organization where enterprise risk management practices are mature, which of the following is a core internal audit role?

**A.** Giving assurance that risks are evaluated correctly.

**B.** Developing the risk management strategy for the board's approval.

**C.** Facilitating the identification and evaluation of risks.

**D.** Coaching management in responding to risk.

**ANSWER: A**

**Explanation:**

Giving assurance that risks are evaluated correctly is a core internal audit role in an organization with mature enterprise risk management (ERM). Management owns risk management: it establishes objectives, identifies and assesses risks, determines risk responses, and operates the related controls. Internal audit remains independent of these management decisions and provides objective assurance to the board and senior management on whether risk management processes are appropriately designed and operating effectively. In a mature ERM environment, this includes evaluating whether significant risks have been identified, assessed using suitable criteria, aligned with the organization's risk appetite, and communicated and monitored in a reliable manner. The role is therefore to assess and report on the adequacy and effectiveness of governance, risk management, and control processes—not to assume accountability for creating the strategy or managing risk responses. This independent assurance supports the board's oversight responsibilities while preserving internal audit's objectivity. The IIA's Three Lines Model describes internal audit as providing independent and objective assurance and advice on governance and risk management. The IIA's position paper on risk management also identifies assurance on risk management processes as an appropriate core role for internal audit. See IIA Global Internal Audit Standards and The IIA Three Lines Model.

**QUESTION NO: 47**

How do data analysis technologies affect internal audit testing?

**A.** They improve the effectiveness of spot check testing techniques.

**B.** They allow greater insight into high risk areas.

**C.** They reduce the overall scope of the audit engagement.

**D.** They increase the internal auditor's objectivity.

**ANSWER: B**

**Explanation:**

They allow greater insight into high risk areas. Data-analysis technologies enable internal auditors to examine large volumes of transactional and operational data efficiently, identify patterns and outliers, and use risk indicators to focus testing where the likelihood or impact of error, fraud, control failure, or noncompliance is greatest. Rather than relying solely on limited samples, auditors can analyze an entire population where data quality and access permit, then investigate exceptions or unusual relationships. This produces more relevant evidence and supports a risk-based audit approach by directing audit effort toward the activities, entities, accounts, processes, or transactions that warrant closer attention.

The Global Internal Audit Standards require internal audit planning and engagement work to be risk-based and to use appropriate methodologies, tools, and techniques. Data analytics is an important technology-enabled method for assessing risks, refining audit procedures, and communicating meaningful observations. It does not itself replace professional judgment: auditors still need to validate data, evaluate control design and operating effectiveness, and determine whether identified exceptions are significant. Used appropriately, analytics expands visibility into risk and helps make testing more targeted and insightful. See the IIA Global Internal Audit Standards and the IIA's Global Technology Audit Guides.

**QUESTION NO: 48**

When should the results of internal quality assessments be communicated to senior management and the board?

**A.** At least once every five years

**B.** At least annually

**C.** Periodically, at the discretion of the chief audit executive

**D.** Only after the results have been validated by an external assessment

**ANSWER: B**

**Explanation:**

At least annually is correct because the quality assurance and improvement program is intended to give senior management and the board timely assurance that the internal audit function conforms with the Global Internal Audit Standards and is continually improving. Internal assessments include ongoing monitoring and periodic self-assessments or assessments by other qualified persons within the organization. Their results should be consolidated and communicated annually so the board can carry out its governance and oversight responsibilities with current information about conformance, performance, and improvement actions. Annual reporting also allows the chief audit executive to communicate significant quality matters, the status of remediation plans, and any limitations affecting the internal audit function's ability to meet its mandate. The IIA's Global Internal Audit Standards, Principle 8 and Standard 8.3, require the chief audit executive to communicate the results of internal assessments to senior management and the board at least annually. This communication supports accountability for the quality assurance and improvement program rather than treating quality as an event that is only reported after an external review. See the IIA's Global Internal Audit Standards, particularly Standard 8.3, Quality.

**QUESTION NO: 49**

An organization plans to upgrade its IT network to address a recent ransomware incident that hampered operations for weeks. The ransomware was the result of lapses in access to the network that exposed sensitive information.

Which of the following is a risk that could significantly be impacted by the organization's planned change to its IT network?

**A.** The organization lacks the necessary senior management to ensure that project objectives are met.

**B.** The organization's recent hiring of additional staff to the IT department would create more scrutiny of end user activity.

**C.** The organization creates new processes and policies that employees feel are too burdensome.

**D.** The organization experiences continuing issues that hamper employees' ability to provide quality customer service.

**ANSWER: C**

**Explanation:**

The organization creates new processes and policies that employees feel are too burdensome. is the risk most directly and significantly affected by a network upgrade implemented in response to ransomware caused by weak network access. Strengthening access controls commonly introduces measures such as multifactor authentication, least-privilege access, additional approval steps, password-management requirements, network segmentation, and more frequent security monitoring. Although these measures reduce the likelihood of unauthorized access, they also change how employees perform routine work. If the changed processes are perceived as excessively complex, slow, or disruptive, users may resist adoption, seek workarounds, share credentials, delay required steps, or otherwise fail to follow the intended controls. Those behaviors can undermine the security benefits of the upgraded network and recreate exposure to unauthorized access. Effective change management therefore requires the organization to assess user impact, communicate the purpose of the controls, provide practical training and support, and monitor adoption after implementation. This aligns with the risk-based approach to managing cybersecurity controls described in the NIST Cybersecurity Framework and with the IIA's expectations that internal audit evaluate governance, risk management, and control processes under the Global Internal Audit Standards.

**QUESTION NO: 50**

With regard to project management, which of the following statements about project crashing is true?

**A.** It leads to an increase in risk and often results in rework.

**B.** It is an optimization technique where activities are performed in parallel rather than sequentially.

**C.** It involves a revaluation of project requirements and/or scope.

**D.** It is a compression technique in which resources are added to the project.

**ANSWER: D**

**Explanation:**

"It is a compression technique in which resources are added to the project." is correct. Project crashing is a schedule-compression approach used when a project team needs to shorten the planned duration while retaining the agreed project scope. The team identifies activities on the critical path and evaluates whether assigning additional resources—such as extra personnel, specialist support, overtime, or additional equipment—can reduce those activities' durations. Because only reductions in critical-path work can shorten the overall project completion date, crashing requires analysis of the schedule network and of the incremental cost associated with each possible duration reduction. The usual objective is to obtain the required schedule reduction at the lowest reasonable additional cost, while recognizing practical constraints such as resource availability, coordination needs, and diminishing returns. It is therefore distinct from changing requirements or scope: crashing seeks to accelerate delivery of the same planned work through additional resource expenditure. PMI describes schedule compression as techniques used to shorten a schedule without reducing scope; its discussion includes crashing as a resource-based compression method. See PMI's overview of project schedule-compression techniques and the PMI Lexicon of Project Management Terms.

**QUESTION NO: 51**

What is the primary purpose of an integrity control?

**A.** To ensure data processing is complete, accurate, and authorized.

**B.** To ensure data being processed remains consistent and intact.

**C.** To monitor the effectiveness of other controls.

**D.** To ensure the output aligns with the intended result.

**ANSWER: B**

**Explanation:**

The primary purpose of an integrity control is to ensure data being processed remains consistent and intact. Integrity means that information is not improperly altered, deleted, corrupted, or otherwise changed in a way that compromises its reliability. In an information system, these controls help preserve the accuracy, completeness, and consistency of data as it is entered, stored, transmitted, and processed. Examples include edit and validation checks, record counts and hash totals, database referential-integrity constraints, reconciliations, controlled update permissions, and audit trails that identify changes.

For internal auditors, the key consideration is whether the control design and operating evidence provide reasonable assurance that processing preserves trustworthy data throughout its lifecycle. Reliable data is essential because management decisions, financial reporting, operational monitoring, and downstream applications depend on records that faithfully represent the underlying events and transactions. The NIST glossary defines integrity as guarding against improper information modification or destruction and includes ensuring information nonrepudiation and authenticity. This aligns directly with the objective of keeping processed data consistent and intact. See the NIST definition of integrity and NIST's security objectives guidance in FIPS 199.

**QUESTION NO: 52**

The internal audit function conducted an engagement on maintenance operations of a construction organization and identified several issues of medium importance. The head of maintenance proposed an improvement plan with deadlines and personnel responsible. The internal audit function issued the final report to senior management. Senior management was dissatisfied with the report as they believed that improvement plan deadlines should be considerably shorter. Which of the following should the internal audit function change in the reporting process?

**A.** Discontinue discussing draft reports with responsible employees, as their input is needed during fieldwork only

**B.** Involve senior management at the draft report stage and in the development of action plans

**C.** Request senior management to issue a separate memo regarding their changes to deadlines

**D.** Invite senior management to the board meeting regarding engagement results so that they can express their concerns

**ANSWER: B**

**Explanation:**

Involve senior management at the draft report stage and in the development of action plans. Action plans are management's response to engagement findings and should specify the corrective actions, accountable individuals, and implementation dates. Where senior management has expectations about the urgency of remediation, engaging it before final communication gives it an opportunity to provide direction on risk acceptance, prioritization, resources, and target dates. This enables the final report to communicate a plan that is understood by the relevant levels of management and is appropriately responsive to the organization's risk exposure. Internal audit remains responsible for maintaining objectivity and for clearly communicating the significance of the findings, but timely discussion of draft results and proposed actions supports practical, accountable remediation. The IIA's Global Internal Audit Standards emphasize communicating engagement results to appropriate parties and establishing a process to monitor management action plans. Early involvement of senior management is particularly appropriate when it has authority over the resources and priorities needed to accelerate corrective action. See the IIA's Global Internal Audit Standards and its guidance on Standards and guidance.

**QUESTION NO: 53**

A global business organization is selecting managers to post to various international (expatriate) assignments. In the screening process, which of the following traits would be required to make a manager a successful expatriate?

1. Superior technical competence.

2. Willingness to attempt to communicate in a foreign language.

3. Ability to empathize with other people.

**A.** 1 and 2 only

**B.** 1 and 3 only

**C.** 2 and 3 only

**D.** 1, 2, and 3

**ANSWER: C**

**Explanation:**

**2 and 3 only** is correct because successful expatriate performance depends substantially on cross-cultural adjustment and the ability to establish effective working relationships in the host country. A willingness to communicate in the local language demonstrates openness, adaptability, and active engagement with the host environment. Fluency may not always be essential, but a genuine effort to communicate can build trust, reduce misunderstandings, and improve day-to-day collaboration with local employees, customers, and other stakeholders.

Empathy is also essential because international managers must understand that colleagues may have different cultural assumptions, communication norms, decision-making styles, and workplace expectations. Empathetic managers can recognize these perspectives and adapt their behavior without imposing their home-country approach. This cultural sensitivity supports relationship building, leadership credibility, and effective conflict management across borders. Cross-cultural competence is commonly understood as a combination of awareness, interpersonal skill, and behavioral adaptability, rather than technical expertise alone. The Society for Human Resource Management discusses cultural intelligence and adaptability as important capabilities for global work: SHRM Global HR. The U.S. Department of State likewise emphasizes cultural adaptation and communication in overseas assignments: U.S. Department of State Foreign Service careers.

**QUESTION NO: 54**

During an internal audit engagement, it was found that several vendors were on a government sanctions list and must no longer be traded with. Which of the following would most effectively mitigate the risk of noncompliance with sanctions lists that are updated regularly?

**A.** Agreements with sanctioned vendors discovered by internal audit will be placed on hold until further notice from the government

**B.** A new procedure of vendor onboarding will be implemented to ensure that all new vendors undergo screenings against the sanctions list

**C.** Controls will be embedded in the vendor management processes to ensure that new and existing vendors are compliant with changes to the sanctions list

**D.** The legal team will be asked to prepare counter arguments to dispute audit findings and potential inquiries from the governmental authority

**ANSWER: C**

**Explanation:**

Controls will be embedded in the vendor management processes to ensure that new and existing vendors are compliant with changes to the sanctions list is the most effective mitigation because sanctions compliance requires an ongoing, risk-based process rather than a one-time response. Sanctions lists can change as parties are added, removed, or updated, and an organization may also acquire new information that changes the risk associated with an existing vendor. Embedding controls in vendor management supports screening at onboarding and periodic or event-driven rescreening throughout the vendor relationship. It also enables timely escalation, blocking of transactions, suspension of relationships where required, documentation of review results, and appropriate management oversight. These features reduce the likelihood that the organization continues trading with a newly listed or otherwise restricted party. The U.S. Treasury's Office of Foreign Assets Control describes sanctions compliance programs as incorporating management commitment, risk assessment, internal controls, testing and auditing, and training; internal controls should be tailored to the organization's specific sanctions risks. Continuous vendor screening is a practical application of those internal-control expectations. Sanctions-list data and search tools are available through OFAC Sanctions List Search, and OFAC's framework is available at A Framework for OFAC Compliance Commitments.

**QUESTION NO: 55**

The engagement supervisor prepares the final engagement communication for dissemination. Since the chief audit executive (CAE) is on leave, the supervisor is delegated to disseminate the final engagement communication to all relevant parties. Who should be accountable for the final engagement communication?

**A.** Engagement supervisor

**B.** Chief audit executive

**C.** The board

**D.** The internal audit team

**ANSWER: B**

**Explanation:**

The **Chief audit executive** is accountable for the final engagement communication. Delegating the administrative act of disseminating a communication does not transfer the CAE's overall accountability for the internal audit function's work or its communications. The CAE is responsible for ensuring that engagement results are communicated appropriately and that final communications meet the applicable requirements for quality, including being accurate, objective, clear, concise, constructive, complete, and timely. In practice, an engagement supervisor may prepare the report and, when authorized, issue or distribute it while the CAE is unavailable. That delegation supports continuity of operations, but it is exercised under the CAE's authority and responsibility. The CAE must establish processes for reviewing, approving, and communicating engagement results, including arrangements for delegated authority during absences. The IIA's Global Internal Audit Standards place responsibility for communicating engagement results within the CAE's leadership of the internal audit function and require final engagement communications to be issued to the appropriate parties. See the IIA's Global Internal

Audit Standards, particularly the requirements concerning communicating results and the CAE's responsibilities, and the IIA's Standards resource page.

## QUESTION NO: 56

What must be monitored in order to manage risk of consumer product inventory obsolescence?

1. Inventory balances.

2. Market share forecasts.

3. Sales returns.

4. Sales trends.

**A.** 1 only

**B.** 4 only

**C.** 1 and 4 only

**D.** 1, 2, and 3 only

## ANSWER: C

**Explanation:**

"1 and 4 only" is correct because effective management of consumer-product inventory obsolescence requires visibility into both the quantity held and the demand velocity for that inventory. Inventory balances identify the amount of capital tied up in each product, stock-keeping unit, or product line and allow management to identify unusually high quantities, slow-moving stock, and items that may exceed expected demand. Sales trends provide the demand evidence needed to evaluate whether those balances remain supportable. Declining sales, reduced unit velocity, or persistent failure to meet expected sell-through are key indicators that products may become outdated, unsaleable, or require markdowns.

Monitoring these measures together supports timely actions such as revising forecasts, slowing or stopping purchases and production, reallocating stock, discounting merchandise, or recording an appropriate inventory write-down. This approach is consistent with the requirement to assess inventories for recoverability and measure them at the lower of cost and net realizable value when expected selling proceeds decline. The IFRS overview of IAS 2 Inventories addresses this measurement principle. The COSO Internal Control—Integrated Framework also emphasizes using relevant, quality information to identify and respond to risks in a timely manner.

## QUESTION NO: 57

A large retail customer made an offer to buy 10,000 units at a special price of $7 per unit. The manufacturer usually sells each unit for $10. Variable manufacturing costs are $5 per unit and fixed manufacturing costs are $3 per unit. For the manufacturer to accept the offer, which of the following assumptions needs to be true?

**A.** Fixed and variable manufacturing costs are less than the special offer selling price

**B.** The manufacturer can fulfill the order without expanding the capacities of the production facilities

**C.** Costs related to accepting this offer can be absorbed through the sale of other products

**D.** The manufacturerâ€™s production facilities are currently operating at full capacity

## ANSWER: B

**Explanation:**

The manufacturer can fulfill the order without expanding the capacities of the production facilities is correct because special-order decisions depend on relevant, incremental revenues and costs. The offered price of $7 per unit exceeds the variable

manufacturing cost of $5 per unit, producing a $2 contribution margin per unit. For 10,000 units, the order would generate $20,000 toward fixed costs and profit, provided the existing fixed manufacturing costs will be incurred regardless of whether the order is accepted. The stated $3 fixed cost per unit is generally not relevant to a short-term special-order decision when it is an allocated, unavoidable cost rather than an additional cost caused by the order. Available unused production capacity is therefore essential: it allows the manufacturer to produce the special-order units without incurring capacity-expansion costs or displacing regular sales. If capacity is available and no other incremental costs or lost contribution from normal sales arise, accepting an order with a price above variable cost improves short-term operating income. This treatment follows the managerial-accounting principle that decisions should use future costs and revenues that differ between alternatives. See OpenStax, Relevant Information for Decision-Making and AccountingTools, Special Order Pricing.

## QUESTION NO: 58

Which of the following is classified as a product cost using the variable costing method?

Direct labor costs.

Insurance on a factory.

Manufacturing supplies.

Packaging and shipping costs.

**A.** 1 and 2

**B.** 1 and 3

**C.** 2 and 4

**D.** 3 and 4

## ANSWER: B

**Explanation:**

The correct answer is **1 and 3**. Under variable costing, product (inventoriable) costs consist of all variable costs incurred to manufacture a unit: direct materials, direct labor, and variable manufacturing overhead. Direct labor is incurred in converting materials into finished goods and varies with production activity, so it is included in inventory until the finished goods are sold. Manufacturing supplies, when consumed as production volume changes, are an indirect but variable manufacturing cost. They are therefore classified as variable manufacturing overhead and included in product cost under this method.

This classification reflects the core purpose of variable costing: assigning to inventory only those manufacturing costs that vary with output. Thus, direct labor and variable manufacturing supplies are accumulated with the cost of goods produced and subsequently recognized in cost of goods sold when the related units are sold. This treatment supports contribution-margin analysis by separating variable production costs from costs that are expensed for the period. For further discussion of variable costing and its inventory-cost treatment, see OpenStax, Variable Costing and AccountingCoach, Absorption and Variable Costing.

## QUESTION NO: 59

Which of the following data analytics techniques is used to identify patterns among groups of data elements?

**A.** Stratification of numeric values.

**B.** Joining different data sources.

**C.** Duplicate testing.

**D.** Classification.

## ANSWER: D

**Explanation:**

Classification is the appropriate technique because it organizes data elements into meaningful groups according to common attributes, characteristics, or observed patterns. In an internal audit context, classification can be used to categorize transactions by type, suppliers by risk profile, customers by behavior, or control exceptions by underlying characteristics. Once records are classified, the auditor can compare the groups, identify concentrations of risk, recognize unusual patterns, and direct follow-up procedures toward the groups that warrant further investigation. Classification may be performed using predefined business rules, such as assigning transactions to expense categories, or through analytical models that learn patterns from known examples. The essential feature is that individual data elements are assigned to groups whose members share relevant properties. This supports risk assessment and audit planning by making large, complex populations more understandable and by revealing relationships that may not be evident from reviewing individual records. The IIA's guidance on data analytics describes the value of using analytical methods to identify trends, patterns, anomalies, and risk indicators within audit populations. See the IIA's Global Technology Audit Guides and the Global Internal Audit Standards for guidance on applying technology and information appropriately in internal audit work.

## QUESTION NO: 60

Which of the following is classified as a product cost using the variable costing method?

1. Direct labor costs.

2. Insurance on a factory.

3. Manufacturing supplies.

4. Packaging and shipping costa.

**A.** 1 and 2

**B.** 1 and 3

**C.** 2 and 4

**D.** 3 and 4

## ANSWER: B

**Explanation:**

Under variable costing, product costs include all manufacturing costs that vary with production volume: direct materials, direct labor, and variable manufacturing overhead. Therefore, "1 and 3" is correct because direct labor is a core production cost that is traceable to units produced, and manufacturing supplies are ordinarily treated as variable manufacturing overhead when their consumption changes with manufacturing activity. Both costs are assigned to inventory and become cost of goods sold when the related goods are sold.

This treatment reflects the fundamental purpose of variable costing: inventory is measured using only costs incurred to manufacture each additional unit. Variable manufacturing overhead includes indirect production inputs, such as supplies used in operating and maintaining the production process, when those inputs are consumed as production occurs. The cost classification depends on the cost's behavior and manufacturing relationship; here, manufacturing supplies represent an indirect but production-related variable input. Guidance on the distinction between product and period costs and on variable costing is available in OpenStax, Variable Costing and AccountingTools, Variable Costing.

## QUESTION NO: 61

Which of the following best describes the use of predictive analytics?

**A.** A supplier of electrical parts analyzed an instances where different types of spare parts were out of stock prior to scheduled deliveries of those parts.

**B.** A supplier of electrical parts analyzed sales, applied assumptions related to weather conditions, and identified locations where stock levels would decrease more quickly.

**C.** A supplier of electrical parts analyzed all instances of a part being, out of stock poor to its scheduled delivery date and discovered that increases in sales of that part consistently correlated with stormy weather.

**D.** A supplier of electrical parts analyzed sales and stock information and modelled different scenarios for making decisions on stock reordering and delivery

**ANSWER: B**

**Explanation:**

Predictive analytics uses historical and current data, together with statistical techniques, forecasting models, and often machine learning, to estimate the likelihood of future events or conditions. “A supplier of electrical parts analyzed sales, applied assumptions related to weather conditions, and identified locations where stock levels would decrease more quickly” is predictive because it combines observed sales data with an assumed future driver—weather—to forecast where inventory depletion is likely to occur. The result is an anticipated operational outcome, enabling management to act proactively by monitoring or preparing those locations before a stockout occurs.

For internal auditors, predictive analytics can be valuable when assessing whether management identifies emerging risks early enough and whether data-driven controls support timely operational decisions. Forecasting likely inventory shortages may also inform audit planning, such as targeting locations with elevated supply-chain or customer-service risk. The essential characteristic is not merely analyzing prior events, but applying data and modeled assumptions to estimate what is likely to happen next. The National Institute of Standards and Technology describes predictive analytics as using data to predict future outcomes in its Big Data Interoperability Framework. Additional practical context on predictive modeling and forecasting is available from Microsoft’s advanced analytics architecture guidance.

## QUESTION NO: 62

Which of the following network types should an organization choose if it wants to allow access only to its own personnel?

**A.** An extranet

**B.** A local area network

**C.** An Intranet

**D.** The internet

**ANSWER: C**

**Explanation:**

An Intranet is correct because it is a private organizational network intended to provide authorized internal users—such as employees and other personnel—with controlled access to information, applications, and collaboration services. Unlike a network classification based solely on geographic scope, an intranet is defined by its organizational purpose and access boundary. It commonly uses standard internet technologies, including web browsers and TCP/IP, while applying authentication, authorization, encryption, and network-security controls so that resources are available only to approved personnel. This supports confidential internal communication, policy publication, document sharing, and access to business systems without making those resources broadly available to the public or external business parties.

For internal auditors, the key consideration is that the organization establishes and monitors logical access controls appropriate to the sensitivity of intranet-hosted data and services. These controls should include unique identities, role-based permissions, timely removal of access when personnel leave or change roles, and secure remote-access arrangements where applicable. NIST describes access control as limiting information-system access to authorized users, processes, and devices; this is the security objective an intranet is designed to support. See NIST’s Access Control definition and CISA guidance on secure website connections.

## QUESTION NO: 63

According to IIA guidance, which of the following would be a primary reason for an internal auditor to test the organization's IT contingency plan?

**A.** To ensure that adequate controls exist to prevent any significant business interruptions.

**B.** To identify and address potential security weaknesses within the system.

**C.** To ensure that tests contribute to improvement of the program.

**D.** To ensure that deficiencies identified by the audit are promptly addressed.

**ANSWER: C**

**Explanation:**

“To ensure that tests contribute to improvement of the program” is correct because contingency-plan testing is an essential feedback mechanism, not merely a documentation exercise. Internal audit evaluates whether the organization has designed, maintained, and exercised arrangements that can restore critical IT services and support business recovery within management-approved requirements. Test activities—such as tabletop exercises, recovery simulations, and failover tests—produce evidence of whether recovery procedures, roles, communications, dependencies, backup restoration, and recovery-time objectives operate as intended. Most importantly, the results identify lessons learned and provide a basis for updating the contingency plan, recovery procedures, training, and supporting technical controls. This continuous-improvement outcome helps keep the program aligned with changes in systems, threats, suppliers, and business priorities. The IIA’s technology-audit guidance emphasizes that internal auditors should assess governance, risk management, and controls across technology-enabled processes, including resilience and continuity. NIST similarly states that contingency-plan testing, training, and exercises are used to validate recovery capabilities and identify plan improvements. See the IIA’s Global Technology Audit Guides and NIST SP 800-34 Rev. 1, Contingency Planning Guide.

**QUESTION NO: 64**

Which of the following statements accurately describes the responsibility of the internal audit activity regarding IT governance?

The internal audit activity does not have any responsibility because IT governance is the responsibility of the board and senior management of the organization.

The internal audit activity must assess whether the IT governance of the organization supports the organization ' s strategies and objectives.

The internal audit activity may assess whether the IT governance of the organization supports the organization ' s strategies and objectives.

The internal audit activity may accept requests from management to perform advisory services regarding how the IT governance of the organization supports the organization ' s strategies and objectives.

**A.** 1 only

**B.** 4 only

**C.** 2 and 4

**D.** 3 and 4

**ANSWER: C**

**Explanation:**

**2 and 4** is correct. Internal auditing provides independent assurance that governance processes are designed and operating effectively. This includes assessing whether IT governance supports the organization’s strategies and objectives. The assessment considers whether IT-related decision-making, accountability, risk oversight, resource allocation, performance monitoring, and information-security governance are aligned with the organization’s goals. Although the board and senior management retain responsibility and accountability for establishing and directing IT governance, internal audit has a required assurance role in evaluating it and communicating significant results to the appropriate parties.

Internal audit may also accept management requests for advisory services concerning IT governance. Such services can include facilitating a governance assessment, advising on IT-control frameworks, or identifying considerations for improving

alignment between technology investments and organizational objectives. In performing advisory work, internal audit must preserve independence and objectivity: management remains responsible for selecting, implementing, and operating governance processes and controls. This combination appropriately distinguishes internal audit's mandatory assurance responsibility from its permissible consulting role. The IIA's standards describe internal audit's role in evaluating governance, risk management, and control processes; see the IIA Global Internal Audit Standards. Useful IT-governance context is also provided by ISACA's COBIT resource page.

## QUESTION NO: 65

An internal auditor is trying to assess control risk and the effectiveness of an organization's internal controls. Which of the following audit procedures would not provide assurance to the auditor on this matter?

**A.** Interviewing the organization's employees.

**B.** Observing the organization's operations.

**C.** Reading the board's minutes.

**D.** Inspecting manuals and documents.

## ANSWER: C

**Explanation:**

Reading the board's minutes would not, by itself, provide assurance about control risk or the operating effectiveness of internal controls. Board minutes are primarily a record of governance discussions, resolutions, and matters reported to those charged with governance. They may provide useful background about oversight activities, significant issues, or management representations, but they do not directly demonstrate that specific controls were designed appropriately, performed consistently, or achieved their intended objectives during the period under review.

Assurance about control effectiveness requires the auditor to obtain sufficient, reliable, relevant, and useful evidence that is linked to the control activity and its actual operation. For example, the auditor needs evidence that a control was performed, by an appropriate person, at the required frequency, and with appropriate follow-up of exceptions. Internal audit work must use a systematic, disciplined approach and base conclusions on adequate information, as reflected in the IIA's Global Internal Audit Standards. The nature and reliability of audit evidence are also addressed in ISA 500, Audit Evidence. Therefore, reading the board's minutes is not a direct assurance procedure for evaluating the effectiveness of the organization's internal controls.

## QUESTION NO: 66

Which of the following best describes a potential benefit of using data analyses?

**A.** It easily aligns with existing internal audit competencies to reduce expenses

**B.** It provides a more holistic view of the audited area.

**C.** Its outcomes can be easily interpreted into audit: conclusions.

**D.** Its application increases internal auditors ' adherence to the Standards

## ANSWER: B

**Explanation:**

"It provides a more holistic view of the audited area." is correct because data analyses enable internal auditors to examine broader populations of transactions, operational measures, trends, relationships, and exceptions than would normally be feasible through manual review or limited sampling alone. By combining and analyzing relevant data from across systems and processes, the audit team can identify patterns, outliers, control indicators, and areas of elevated risk. This broader evidence base improves the auditor's understanding of the audited area and supports more focused risk assessment, audit planning, testing, and communication of results. Data analysis may be used throughout an engagement, including to

understand the activity under review, determine where additional testing is warranted, and evaluate whether observations are isolated or more pervasive. The Global Internal Audit Standards require auditors to use information that is relevant, reliable, and sufficient to support engagement results; appropriately designed analysis can substantially strengthen the sufficiency and coverage of that information. The IIA also describes data analytics as a means to enhance audit insights and deliver greater value through more effective use of organizational data. See the IIA Global Internal Audit Standards and the IIA's Data Analysis Technologies practice guide.

## QUESTION NO: 67 - (SIMULATION)

Which of the following is a project planning methodology that involves a complex series of required simulations to provide information about schedule risk?

## ANSWER: See the explanation for the answer

**Explanation:**

**Answer: Monte Carlo simulation (Monte Carlo analysis).**

Monte Carlo analysis is a project-planning and risk-analysis methodology that runs a large number of simulations using variable estimates (such as task durations and costs). The resulting probability distributions provide information about **schedule risk**, including the likelihood of completing the project by a specified date.

## QUESTION NO: 68

An internal audit team is trialing a data analytics tool. An extract from accounts payable was loaded into the tool and as a result, the tool flagged most of the transactions, thus yielding no meaningful results. After investigating, the audit team determined that the extract contained duplicate entries and spelling issues.

Which of the following should have been performed prior to loading the data into the analytics tool?

**A.** Data segregation.

**B.** Data stratification.

**C.** Data normalization.

**D.** Data quantification.

## ANSWER: C

**Explanation:**

Data normalization is the appropriate preparatory step because useful audit analytics depend on data that is consistent and comparable before tests and exception rules are applied. In this case, duplicate records and spelling variations make logically identical values appear different or cause transactions to be counted more than once. Normalizing the extract standardizes values and formats, resolves inconsistent text representations, and supports identification and removal or appropriate treatment of duplicate records. This produces a cleaner, more reliable population for the analytics tool and prevents a large volume of false or non-actionable exceptions from obscuring meaningful results. The audit team should establish data quality procedures as part of planning and executing technology-enabled audit work, including validating the reliability of information used to support audit conclusions. The IIA's Global Internal Audit Standards require internal auditors to assess the relevance, reliability, and sufficiency of information used in engagements. Reliable analytics also require data preparation practices that improve consistency and quality before analysis. See the IIA Global Internal Audit Standards and NIST's guidance on data quality.

## QUESTION NO: 69

Which of the following is a role of the board of directors in the governance process?

**A.** Conduct periodic assessments of the organization's governance systems.

**B.** Obtain assurance concerning the effectiveness of the organization's governance systems.

**C.** Implement an effective system of internal controls to support the organization's governance systems.

**D.** Review and approve operational goals and objectives.

**ANSWER: B**

**Explanation:**

Obtaining assurance concerning the effectiveness of the organization's governance systems is a core board responsibility because the board has ultimate oversight accountability for whether governance supports ethical conduct, organizational performance, risk management, control, and reliable reporting. The board does not need to perform the detailed testing itself; rather, it should ensure that it receives sufficient, objective, and timely assurance from management, internal audit, external audit where applicable, and other assurance providers. This assurance enables informed challenge of management, identification of significant governance weaknesses, and appropriate corrective oversight.

The Global Internal Audit Standards describe the board's governance role as authorizing internal audit, protecting its independence, and overseeing its performance. An effective internal audit function provides assurance and advice regarding governance, risk management, and control processes, helping the board discharge its oversight responsibilities. The Institute of Internal Auditors' Three Lines Model likewise recognizes the governing body's role in ensuring appropriate structures and processes for accountability, oversight, and assurance. See the IIA Global Internal Audit Standards and the IIA Three Lines Model.

## QUESTION NO: 70

According to Maslow's hierarchy of needs theory, which of the following best describes a strategy where a manager offers an assignment to a subordinate specifically to support his professional growth and future advancement?

**A.** Esteem by colleagues.

**B.** Self-fulfillment.

**C.** Sense of belonging in the organization.

**D.** Job security.

**ANSWER: B**

**Explanation:**

Self-fulfillment is correct because the manager is deliberately providing a developmental assignment to help the employee grow professionally and prepare for future advancement. In Maslow's hierarchy, self-actualization, often described as self-fulfillment, concerns realizing one's potential, pursuing personal development, and achieving meaningful growth. A stretch assignment, expanded responsibility, or opportunity to develop new capabilities can support this need when it is intended to help an individual progress toward longer-term career potential rather than merely provide an external reward.

Maslow's theory is commonly applied in management by linking workplace practices to the kinds of needs employees seek to satisfy. Professional-development opportunities are especially relevant to the highest-level need because they enable employees to use and build their abilities, pursue challenging goals, and move toward what they are capable of becoming. The wording "specifically to support his professional growth and future advancement" directly emphasizes development and potential, making self-fulfillment the best description. See the overview of Maslow's hierarchy in OpenStax/BCcampus: Maslow's Hierarchy of Needs and the Simply Psychology summary of Maslow's hierarchy.

## QUESTION NO: 71

Which of the following statements is true with regard to capital budgeting?

**A.** Using the net present value method, a proposal is acceptable when the net present value is negative.

**B.** The internal rate of return is the highest interest rate that will cause the present value of the proposed capital expenditure to be less than the present value of expected net annual cash flows.

**C.** The cash payback technique is used to determine the period of time required to recover the capital investment, plus the expected return, from the annual cash flow produced by the investment.

**D.** The annual rate of return technique is used to estimate the profitability of a capital expenditure by dividing the expected annual net income by the average investment.

**ANSWER: D**

**Explanation:**

The annual rate of return technique is used to estimate the profitability of a capital expenditure by dividing the expected annual net income by the average investment. Also called the accounting rate of return, this technique evaluates a project using accounting income rather than discounted cash flows. Expected annual net income generally reflects revenues and expenses associated with the investment, including noncash expenses such as depreciation, while average investment commonly represents the average book value committed to the project over its useful life. The resulting percentage gives management a readily understandable measure for comparing a proposed investment's estimated accounting profitability with a required target return or with other projects.

For example, if a project is expected to produce annual net income of $20,000 and has an average investment of $200,000, its annual rate of return is 10%. This method is particularly useful when a decision maker wants a performance measure aligned with reported income and asset investment. In capital-budgeting analysis, internal auditors should understand both the assumptions used to estimate annual net income and the method used to calculate average investment, because those assumptions directly affect the reported return. See the OpenStax discussion of capital-investment evaluation methods and the AccountingCoach overview of capital budgeting.

**QUESTION NO: 72**

Which of the following methods has the lowest risk of inaccurate authentication?

**A.** Fingerprint identification.

**B.** Complex passwords.

**C.** Signature verification.

**D.** Personal security questions.

**ANSWER: A**

**Explanation:**

Fingerprint identification provides the lowest risk of inaccurate authentication among the listed methods because it validates an inherent physical characteristic rather than information that a person knows or supplies. A properly implemented fingerprint system compares a captured fingerprint with an enrolled biometric template and makes its decision using configured matching thresholds. This gives the organization measurable performance indicators, including the likelihood that an unauthorized person is accepted and the likelihood that an authorized person is rejected. These thresholds can be selected according to the sensitivity of the protected resource, while enrollment quality, sensor quality, liveness detection, and secure protection of stored templates help preserve reliability. Biometric authentication also binds the authentication event more directly to the individual present at the time of access, supporting stronger identity assurance. Internal auditors should still assess biometric governance, privacy, template encryption, access controls, monitoring, and fallback procedures, since biometric systems are not error-free. Nevertheless, fingerprint identification is generally recognized as a stronger authentication factor than knowledge- or behavior-based methods when considered on its own. See the NIST Digital Identity Guidelines: Authentication and Authenticator Management and the NIST definition of biometric authentication.

**QUESTION NO: 73**

At which fundamental level of a quality assurance and improvement program is an opinion expressed about the entire spectrum of the internal audit function's work?

**A.** At the external perspective level

**B.** At the internal audit function level

**C.** At the internal audit engagement level

**D.** At the self-assessment activity level

**ANSWER: B**

**Explanation:**

At the internal audit function level, the quality assurance and improvement program (QAIP) reaches across the complete internal audit activity rather than examining the performance of one assignment in isolation. This level of assessment supports an overall conclusion about whether the internal audit function conforms with applicable professional requirements and whether its policies, methodologies, governance, staffing, planning, supervision, and reporting processes operate effectively. Because it considers the full range of the function's work and the systems used to manage that work, it is the appropriate level for expressing an opinion on the entire spectrum of internal audit activity.

The IIA's Global Internal Audit Standards require the chief audit executive to develop, implement, and maintain a QAIP that covers all aspects of the internal audit function. The program includes ongoing monitoring and periodic self-assessments, as well as an external quality assessment at least once every five years. Together, these activities provide a basis for evaluating the function as a whole and identifying improvements that enhance its quality and effectiveness. See the IIA's Global Internal Audit Standards and its QAIP guidance resources.

**QUESTION NO: 74**

According to the Standards, the internal audit activity must evaluate risk exposures relating to which of the following when examining an organization's risk management process?

1. Organizational governance.

2. Organizational operations.

3. Organizational information systems.

4. Organizational structure.

**A.** 1 and 3 only

**B.** 2 and 4 only

**C.** 1, 2, and 3 only

**D.** 1, 2, and 4 only

**ANSWER: C**

**Explanation:**

"1, 2, and 3 only" is correct because the Standards require internal audit to evaluate risk exposures associated with the organization's governance, operations, and information systems when assessing the effectiveness of risk management processes. Governance-related exposure includes risks affecting how the organization is directed, overseen, and held accountable. Operational exposure encompasses risks to the effectiveness and efficiency of operations and programs, including the organization's ability to achieve its objectives. Information-system exposure includes risks affecting the reliability, integrity, availability, and protection of information used for decision-making and reporting. These areas are fundamental sources of organizational risk and therefore must be considered within an internal audit evaluation of risk management. The requirement is risk-focused: internal audit assesses whether significant risks in these areas are identified, evaluated, managed, and monitored in a manner that supports organizational objectives. This approach aligns with the risk-management principles in the IIA's Global Internal Audit Standards, which require internal audit services to consider risks

relevant to governance, risk management, control processes, operations, and information. See the IIA's Global Internal Audit Standards and its Standards resource page.

## QUESTION NO: 75

When initiating international ventures, an organization should consider cultural dimensions in order to prevent misunderstandings. Which of the following does not represent a recognized cultural dimension in a work environment?

**A.** Self control.

**B.** Power distance.

**C.** Masculinity versus femininity.

**D.** Uncertainty avoidance.

## ANSWER: A

**Explanation:**

**Self control.** is the correct answer because it is not a standard, independently defined cultural dimension in widely used workplace cross-cultural frameworks. For international business planning, organizations commonly use Hofstede's national-culture model to anticipate differences that can affect communication, leadership, decision-making, supervision, and employee expectations. This model identifies dimensions including power distance, uncertainty avoidance, and masculinity versus femininity. These dimensions provide established ways to assess how people in different national cultures may respond to hierarchy, ambiguity and risk, competition, achievement, cooperation, and quality-of-life priorities.

Although self-control may describe an individual behavior or may be loosely associated with the broader idea of restraint, it is not normally presented as a discrete cultural dimension for evaluating work environments. Hofstede's later model includes indulgence versus restraint, but that is a specific paired construct rather than "self control" as a standalone dimension. Therefore, an organization using recognized cultural-dimension frameworks should not treat self control as a standard work-environment dimension. See the Hofstede six-dimensional model of national culture and the Hofstede Insights country comparison tool for practical application of these dimensions.

## QUESTION NO: 76

As it relates to the data analytics process, which of the following best describes the purpose of an internal auditor who cleaned and normalized cate?

**A.** The auditor eliminated duplicate information.

**B.** The auditor organized data to minimize useless information.

**C.** The auditor made data usable for a specific purpose by ensuring that anomalies were Identified and corrected.

**D.** The auditor ensured data fields were consistent and that data could be used for a specific purpose.

## ANSWER: C

**Explanation:**

The auditor made data usable for a specific purpose by ensuring that anomalies were Identified and corrected. This most accurately describes the combined objective of data cleaning and normalization in an audit analytics workflow. Before an auditor can rely on data to test controls, identify exceptions, evaluate populations, or support conclusions, the data must be prepared so that it represents the underlying business activity consistently and reliably. Cleaning addresses data-quality issues that could distort analysis, such as invalid values, missing or malformed entries, inconsistent dates, duplicate records where relevant, and other anomalies. Normalization applies consistent formats, definitions, structures, and values so that records can be compared, joined, aggregated, and analyzed meaningfully. Together, these activities make the dataset fit for the defined audit purpose—not merely more orderly, but sufficiently dependable to support analysis and professional judgment. This aligns with the internal audit requirement to base engagement conclusions on appropriate analyses and

evaluations, as reflected in The IIA's Global Internal Audit Standards. It is also consistent with the data-preparation concepts described in The IIA's GTAG on Data Analytics.

## QUESTION NO: 77

Which of the following statements is true regarding activity-based costing (ABC)?

**A.** An ABC costing system is similar to conventional costing systems in how it treats the allocation of manufacturing overhead.

**B.** An ABC costing system uses a single unit-level basis to allocate overhead costs to products.

**C.** An ABC costing system may be used with either a job order or a process cost accounting system.

**D.** The primary disadvantage of an ABC costing system is less accurate product costing.

## ANSWER: C

**Explanation:**

An ABC costing system may be used with either a job order or a process cost accounting system. Activity-based costing is an overhead-cost assignment approach, rather than a separate method for accumulating direct materials and direct labor. It identifies activities that consume resources, creates cost pools for those activities, and assigns the pooled costs to cost objects using cost drivers that reflect consumption of each activity. Consequently, an organization can apply ABC where costs are accumulated for distinct customer jobs, contracts, or product lots, and it can also apply ABC in a continuous-production environment where costs are accumulated by department or process. In either setting, ABC supplements the underlying job order or process costing framework by improving the tracing of indirect costs, especially when products or services consume support activities in substantially different proportions. This flexibility makes ABC useful when management needs more decision-relevant product, service, customer, or process cost information for pricing, profitability analysis, and operational decisions. OpenStax describes ABC as assigning overhead based on activities and their cost drivers, including its use to enhance the accuracy of cost allocations: OpenStax, Activity-Based Costing. The U.S. Government Accountability Office also recognizes activity-based costing as a means of assigning costs to outputs based on the activities required to produce them: GAO Cost Estimating and Assessment Guide.

## QUESTION NO: 78

With increased cybersecurity threats, which of the following should management consider to ensure that there is strong security governance in place?

**A.** Inventory of information assets

**B.** Limited sharing of data files with external parties.

**C.** Vulnerability assessment

**D.** Clearly defined policies

## ANSWER: D

**Explanation:**

Clearly defined policies are the foundation of strong security governance because they establish management's direction, expectations, accountability, and decision-making framework for protecting information and technology assets. A security policy framework formally assigns roles and responsibilities; defines requirements for such areas as access management, data classification, third-party relationships, secure system use, incident response, and exception handling; and provides a basis for monitoring compliance. This enables security activities to be applied consistently and aligned with the organization's objectives, risk appetite, and legal or regulatory obligations.

Management should approve and regularly review these policies so they remain responsive to changes in the threat environment, business operations, and technology. Policies also translate governance-level intent into standards and

procedures that operational teams can implement, measure, and enforce. Internal audit can then evaluate whether the policy framework is adequate, communicated, current, and supported by appropriate controls. The IIA's Global Internal Audit Standards identify governance, risk management, and control processes as essential areas for internal audit evaluation, while NIST describes policies as key elements for managing cybersecurity risk across an organization. See the IIA Global Internal Audit Standards and NIST Cybersecurity Framework.

## QUESTION NO: 79

A small chain of grocery stores made a reporting error and understated its ending inventory. What effect would this have on the income statement for the following year?

**A.** Net income would be understated.

**B.** Net income would not be affected.

**C.** Net income would be overstated.

**D.** Net income would be negative.

## ANSWER: C

**Explanation:**

Net income would be overstated. Under a periodic inventory calculation, ending inventory affects cost of goods sold through the formula: beginning inventory plus purchases less ending inventory. The ending inventory reported in one period becomes beginning inventory in the following period. Therefore, when ending inventory is understated at the end of the first year, beginning inventory is likewise understated in the next year. Assuming purchases, sales, and the correct ending inventory for the following year are otherwise recorded properly, the understated beginning-inventory amount causes cost of goods sold for that following year to be understated. Since gross profit and net income increase when cost of goods sold decreases, net income is overstated in the following year.

This is a timing or cutoff effect: the error initially reduces the prior year's income, then reverses in the subsequent period through beginning inventory. Internal auditors assessing inventory reporting should understand this relationship when evaluating the completeness and accuracy of inventory records, the period-end cutoff process, and the effect of detected misstatements on financial reporting. The inventory-cost flow relationship is described in the OpenStax discussion of cost of goods sold and ending inventory. The IIA's Global Internal Audit Standards provide the professional framework for evaluating risks and controls, including those relevant to financial reporting reliability.

## QUESTION NO: 80

Which of the following statements is true concerning the basic accounting treatment of a partnership?

**A.** The initial investment of each partner should be recorded at book value.

**B.** The ownership ratio identifies the basis for dividing net income and net loss.

**C.** A partner ' s capital only changes due to net income or net loss.

**D.** The basis for sharing net incomes or net losses must be fixed.

## ANSWER: B

**Explanation:**

The ownership ratio identifies the basis for dividing net income and net loss. In partnership accounting, each partner has a capital account, and the partnership agreement establishes how the period's profit or loss is allocated among those accounts. That allocation is commonly expressed as an ownership or profit-and-loss-sharing ratio, such as 60% and 40%. After the partnership determines its net income or net loss for the reporting period, it credits or debits each partner's capital account according to the agreed ratio. This allocation is distinct from a distribution of cash; a partner's share of income increases capital even if the income has not been distributed. A well-drafted partnership agreement should clearly document

the partners' respective interests and the method for allocating income, losses, and other items. For U.S. tax reporting, partnership income, gain, loss, deduction, and credit items are allocated to partners and reported to them on Schedule K-1, consistent with the partnership's governing arrangements and applicable tax rules. See the IRS guidance in Publication 541, Partnerships and the IRS overview of partnership filing requirements.

## QUESTION NO: 81

An internal auditor was assigned to test for ghost employees using data analytics. The auditor extracted employee data from human resources and payroll. Using spreadsheet functions, the auditor matched data sets by name and assumed that employees who were not present in each data set should be investigated further. However, the results seemed erroneous, as very few employees matched across all data sets. Which of the following data analytics steps has the auditor most likely omitted?

**A.** Data analysis.

**B.** Data diagnostics.

**C.** Data velocity.

**D.** Data normalization.

## ANSWER: D

**Explanation:**

Data normalization is the omitted step. Before comparing records extracted from human resources and payroll systems, an auditor needs to prepare the data so that equivalent values have consistent structures and formats. Names are particularly unreliable matching fields unless they are standardized: one file may use "Last, First," another may use "First Last," and records may differ in capitalization, punctuation, spaces, middle initials, suffixes, accents, or abbreviations. These superficial differences can cause spreadsheet matching functions to treat the same employee as two different people, producing a misleadingly low number of matches.

Normalization applies consistent formatting and transformation rules before analysis, such as trimming spaces, standardizing case and name order, separating name components where appropriate, and resolving known variations. The auditor should also assess whether a common, stable employee identifier is available and use it as the principal join key. Once the data is normalized and the matching key is validated, unmatched records are much more likely to represent meaningful exceptions for ghost-employee investigation rather than artifacts of inconsistent source-system data.

This reflects the need for internal auditors to obtain and evaluate relevant, reliable information before reaching conclusions, as addressed in The IIA Global Internal Audit Standards. For practical guidance on preparing and transforming data for analysis, see Microsoft's Power Query documentation.

## QUESTION NO: 82

Which of the following is most influenced by a retained earnings policy?

**A.** Cash.

**B.** Dividends.

**C.** Gross margin.

**D.** Net income.

## ANSWER: B

**Explanation:**

Dividends are most directly influenced by a retained earnings policy because this policy determines the portion of earnings that management and the board intend to retain for reinvestment, debt reduction, liquidity, or other corporate purposes rather than distribute to shareholders. After a company determines net income for the period, it may declare dividends from

available earnings and other legally distributable resources. A decision to retain a greater share of earnings generally reduces the amount available for current dividend distributions, while a decision to retain less generally supports greater distributions, subject to legal requirements, cash availability, financing needs, and board approval.

This relationship is reflected in the statement of changes in equity: retained earnings increase through profit and decrease through dividends declared or paid. Accordingly, a retained earnings policy is an important element of capital allocation and governance, balancing shareholder-return expectations with the organization's long-term funding and resilience objectives. Internal auditors may evaluate whether the related governance, authorization, reporting, and compliance processes support sound financial stewardship. The IFRS Foundation's educational material describes retained earnings as accumulated profits that have not been distributed, while the SEC explains that dividends are distributions to shareholders. See IAS 1—Presentation of Financial Statements and the SEC Investor.gov overview of dividends.

## QUESTION NO: 83

For a multinational organization, which of the following is a disadvantage of an ethnocentric staffing policy?

1. It significantly raises compensation and staffing costs.

2. It produces resentment among the organization's employees in host countries.

3. It limits career mobility for parent-country nationals.

4. It can lead to cultural myopia.

**A.** 1 and 4 only

**B.** 2 and 3 only

**C.** 1, 2, and 3 only

**D.** 1, 2, and 4 only

## ANSWER: D

**Explanation:**

**1, 2, and 4 only** is correct. Under an ethnocentric staffing policy, a multinational organization primarily appoints parent-country nationals to important positions in foreign subsidiaries. International assignments commonly raise staffing and compensation costs because they can require expatriate allowances, relocation assistance, housing, tax equalization, travel, and repatriation support. This makes significantly higher costs a recognized disadvantage.

Using parent-country nationals in key roles may also create resentment among host-country employees when they perceive that advancement to senior positions is unavailable regardless of their competence or experience. In addition, reliance on home-country managers and practices can foster cultural myopia: decision-makers may interpret local markets, employee expectations, and business norms mainly through the parent-country perspective rather than adapting effectively to host-country conditions.

Parent-country nationals, by contrast, are the employees whom the policy tends to select for international assignments and senior overseas roles. Therefore, the relevant career-mobility limitation associated with ethnocentrism concerns host-country nationals, not parent-country nationals. These staffing trade-offs are consistent with global workforce-management guidance from SHRM's Managing a Global Workforce toolkit and international-management discussion in OpenStax Introduction to Business.

## QUESTION NO: 84

An organization that relies heavily on IT wants to contain the impact of potential business disruption to a period of approximately four to seven days. Which of the following

business recovery strategies would most efficiently meet this organization ' s needs?

**A.** A recovery strategy whereby a separate site has not yet been determined, but hardware has been reserved for purchase and data backups.

**B.** A recovery strategy whereby a separate site has been secured and is ready for use, with fully configured hardware and real-time synchronized data

**C.** A recovery strategy whereby a separate site has been secured and the necessary funds for hardware and data backups have been reserved.

**D.** A recovery strategy whereby a separate site has been secured with configurable hardware and data backups.

**ANSWER: D**

**Explanation:**

A recovery strategy whereby a separate site has been secured with configurable hardware and data backups is the most efficient fit because it represents a warm recovery site. A warm site provides an alternate facility and substantial recovery capability in advance, while allowing hardware configuration, system restoration, and data loading to occur after a disruption. This produces a recovery timeframe measured in days rather than the near-immediate recovery expected from a fully operational hot site.

The organization's stated recovery requirement of approximately four to seven days is its practical recovery time objective. The recovery strategy should meet that objective reliably without paying for capabilities that materially exceed it. Maintaining a secured alternate location, configurable equipment, and available backup data provides a balanced combination of readiness and cost. It permits IT personnel to rebuild the required processing environment and restore prioritized business services within the target period.

Recovery strategies should be selected through business-impact analysis and recovery-time requirements, with resources proportionate to the criticality of systems and the acceptable duration of disruption. NIST describes contingency planning as aligning recovery capabilities with system requirements and recovery objectives in NIST SP 800-34 Rev. 1. The IIA also emphasizes assessing technology risks and continuity controls through its Global Internal Audit Standards.

**QUESTION NO: 85**

An internal auditor has been asked to conduct an investigation involving allegations of independent contractor fraud. Which of the following controls would be least effective in detecting any potential fraudulent activity?

**A.** Exception report identifying payment anomalies.

**B.** Documented policy and procedures.

**C.** Periodic account reconciliation of contractor charges.

**D.** Monthly management review of all contractor activity.

**ANSWER: B**

**Explanation:**

**Documented policy and procedures.** is the least effective control for detecting potential independent-contractor fraud because documentation, by itself, establishes expectations for authorized contracting, approvals, payments, and recordkeeping but does not actively identify suspicious transactions or deviations after they occur. Policies and procedures are an important element of the control environment and may support prevention by defining responsibilities, required evidence, and escalation requirements. Their value in a fraud investigation depends on whether operating controls translate those requirements into observable monitoring, review, reconciliation, and follow-up activity.

Detection requires timely examination of actual contractor activity and identification of anomalies that may indicate improper payments, duplicate billing, unauthorized vendors, inflated charges, or conflicts of interest. A written policy does not inherently generate evidence, compare transactions to expected patterns, flag exceptions, or ensure that management investigates unusual activity. Accordingly, the auditor should treat documented policies as relevant criteria for assessing whether conduct complied with organizational requirements, rather than as a primary mechanism for discovering fraud. The IIA's standards emphasize evaluating the design and operation of controls within governance, risk management, and control processes. See the IIA Global Internal Audit Standards and the ACFE fraud resources.

## QUESTION NO: 86

A new clerk in the managerial accounting department applied the high-low method and computed the difference between the high and low levels of maintenance costs. Which type of maintenance costs did the clerk determine?

**A.** Fixed maintenance costs.

**B.** Variable maintenance costs.

**C.** Mixed maintenance costs.

**D.** Indirect maintenance costs.

## ANSWER: B

**Explanation:**

Variable maintenance costs. The high-low method estimates how a cost changes as the related activity level changes. It uses observations at the highest and lowest relevant activity levels, because the change in total cost between those two observations is attributed to the cost component that varies with activity. Thus, when the clerk calculates the difference between maintenance costs at the high and low levels, that amount represents the total change in variable maintenance cost over the corresponding change in activity.

To complete the analysis, the clerk would divide the change in maintenance cost by the change in activity to calculate variable maintenance cost per activity unit. That variable rate can then be multiplied by an activity level to estimate the variable portion of maintenance cost. Once the variable portion is estimated, it can be subtracted from total maintenance cost to estimate the fixed component, if needed. This application assumes that activity is within the relevant range and that the observed cost difference is driven by the selected activity base. The approach is a standard cost-behavior estimation technique used in managerial accounting for planning, budgeting, and performance analysis. See OpenStax: The High-Low Method and AccountingCoach: High-Low Method.

## QUESTION NO: 87

Which of the following best describes a market signal?

**A.** The bargaining power of buyers is forcing a drop in market prices.

**B.** There is pressure from the competitor's substitute products.

**C.** Strategic analysis by the organization indicates feasibility of expanding to new market niches.

**D.** The competitor announces a new warranty program.

## ANSWER: D

**Explanation:**

A competitor’s announcement of a new warranty program is a market signal because it is an observable communication or action that can reveal the competitor’s intended market position, anticipated competitive behavior, or desired customer perception. Warranties can be used strategically to communicate confidence in product quality and reliability, to differentiate an offering, or to signal an intention to compete more aggressively for customers who value reduced ownership risk. Competitors and internal analysts should therefore assess both the announcement itself and the likely business objective behind it, including its possible effect on customer expectations, product positioning, service costs, and future competitive responses. In strategic analysis, a market signal is not simply a general market condition; it is information conveyed through a rival’s visible action that may help an organization infer that rival’s strategy and make better-informed decisions. This aligns with the competitive-strategy concept of interpreting competitors’ actions and commitments as signals of intent. See Michael Porter’s Competitive Strategy and Harvard Business School’s overview of competitive strategy.

## QUESTION NO: 88

An organization is considering outsourcing its IT services, and the internal auditor as assessing the related risks. The auditor grouped the related risks into three categories;

- Risks specific to the organization itself.

- Risks specific to the service provider.

- Risks shared by both the organization and the service provider

Which of the following risks should the auditor classify as specific to the service provider?

**A.** Unexpected increases in outsourcing costs.

**B.** Loss of data privacy.

**C.** Inadequate staffing.

**D.** Violation of contractual terms.

**ANSWER: C**

**Explanation:**

**Inadequate staffing.** is a risk specific to the service provider because the provider controls the recruitment, retention, training, supervision, capacity planning, and deployment of the personnel used to deliver the outsourced service. A provider that does not maintain enough suitably skilled staff may be unable to meet agreed service levels, resolve incidents promptly, sustain operations during peak demand, or provide the specialized expertise required by the engagement. These conditions can directly impair the quality, availability, and reliability of the outsourced IT service.

During planning and vendor due diligence, internal audit should therefore evaluate whether the provider has demonstrated staffing capacity and competency consistent with the contracted scope and criticality of the services. Relevant evidence can include staffing plans, skill and certification requirements, turnover data, use of subcontractors, succession arrangements, background-screening practices, and service-level performance reports. Contractual provisions should also permit the organization to monitor provider performance and require remediation when staffing levels or qualifications become insufficient.

This classification is consistent with a risk-based approach to oversight of externally provided services under the IIA's Global Internal Audit Standards and supply-chain risk-management guidance in NIST SP 800-161 Rev. 1.

**QUESTION NO: 89**

According to IIA guidance on IT auditing, which of the following would not be an area examined by the internal audit activity?

**A.** Access system security.

**B.** Policy development.

**C.** Change management.

**D.** Operations processes.

**ANSWER: B**

**Explanation:**

**Policy development.** is correct because developing and owning IT policies is a management responsibility, rather than an internal audit activity responsibility. Management establishes the organization's governance framework, including policies that define expected behavior, accountability, control requirements, and operational practices. If internal audit were to create or take responsibility for those policies, it could subsequently be placed in the position of auditing its own work. That would impair, or appear to impair, the internal audit activity's independence and objectivity.

Internal audit may provide advisory input when requested—for example, by sharing observations about control principles, regulatory expectations, or practices observed elsewhere in the organization. However, management must retain

responsibility for deciding the policy's content, approving it, implementing it, and maintaining it. Internal audit's appropriate role is to independently assess whether the governance, risk management, and control processes established by management are suitably designed and operating effectively. The IIA's Global Internal Audit Standards emphasize that internal audit must remain independent and avoid assuming management responsibility. See the IIA Global Internal Audit Standards and the IIA's Global Technology Audit Guides.

## QUESTION NO: 90

The internal audit function of a manufacturing organization is conducting an advisory engagement. The engagement team identifies a gap in procedures: there is no documentation for the activities that take place when new site construction projects are completed. In practice, these activities include the transfer of assets from the development department to the production department. What is the most appropriate action for the engagement team?

**A.** Circulate a risk and control questionnaire to identify construction process risks

**B.** Facilitate design of a checklist that can be used during asset transfer

**C.** Carry out a root cause analysis to identify the underlying reasons of the process gap

**D.** Allocate additional resources to the production department to better handle the new assets

## ANSWER: B

**Explanation:**

Facilitate design of a checklist that can be used during asset transfer is the most appropriate action because it directly addresses the identified control-design gap while remaining consistent with internal audit's advisory role. A practical checklist can define the completion and handover steps, required supporting documentation, responsible parties, asset-identification details, acceptance evidence, and escalation or approval requirements. This gives management a usable mechanism to establish a repeatable, documented transfer process between the development and production departments.

In an advisory engagement, internal audit may provide facilitation, advice, and process-improvement support, provided it does not assume management responsibility. Facilitating the checklist's design supports management's ownership: process management remains responsible for deciding the final requirements, implementing the procedure, operating the control, and monitoring its effectiveness. The engagement team thereby adds value by applying its control and risk perspective to a clearly observed process weakness without taking ownership of the asset-transfer process itself.

This approach aligns with the International Internal Audit Standards' treatment of advisory services and the requirement for internal audit to support organizational governance, risk management, and control while preserving independence and objectivity. See the IIA's Global Internal Audit Standards and its Standards and Guidance resources.

## QUESTION NO: 91

A chief audit executive (CAE) is developing a strategic plan for the internal audit function. In the last two years, the organization has faced significant IT risks, but the internal audit function has not been able to audit those areas due to a lack of knowledge. How could the CAE address this in the strategic plan?

**A.** Purchase a data analytics program for the internal audit function

**B.** Hold listening sessions to receive management ' s input on the strategic plan

**C.** Develop a succession plan for the internal audit function to avoid staffing deficiencies

**D.** Identify relevant training resources to strengthen staff skillsets

## ANSWER: D

**Explanation:**

Identify relevant training resources to strengthen staff skillsets is the appropriate strategic response because the inability to audit significant IT risks stems directly from a competency gap within the internal audit function. The CAE's plan should

ensure that internal audit has, or can obtain, the knowledge and skills needed to evaluate the organization's material risks. A structured training approach can build capability in areas such as IT governance, cybersecurity, systems controls, data management, and technology-enabled auditing. The plan should assess the specific competencies required, compare them with current staff capabilities, identify suitable learning resources or credentials, allocate time and budget, and monitor whether the resulting skills enable audit coverage of the identified IT-risk areas. This directly supports a risk-based internal audit strategy by aligning resource development with risks that could affect the organization's objectives. The Global Internal Audit Standards require the CAE to establish a strategy for the internal audit function and obtain sufficient resources, including competent personnel, to deliver the internal audit mandate effectively. See the IIA Global Internal Audit Standards and the IIA's standards resources.

## QUESTION NO: 92

During a payroll audit, the internal auditor is assessing the security of the local area network of the payroll department computers. Which of the following IT controls should the auditor test?

**A.** IT application-based controls

**B.** IT systems development controls

**C.** Environmental controls

**D.** IT governance controls

## ANSWER: C

**Explanation:**

**Environmental controls** are the appropriate control category because securing a local area network and the computers connected to it involves protecting the IT environment in which payroll processing occurs. These controls address safeguards over physical and technical infrastructure, such as restricted access to network equipment and computer rooms, secured wiring closets, protection of routers and switches, appropriate workstation placement, device locking, power protection, and measures to prevent unauthorized physical connection to the network. For payroll data, which is particularly sensitive, the auditor should obtain evidence that the departmental LAN infrastructure and endpoints are protected from unauthorized access, damage, interruption, and environmental threats. Testing may include inspecting physical access restrictions, reviewing controls over network equipment locations, checking whether unused network ports are disabled or controlled, and observing whether payroll workstations are secured. These safeguards support the confidentiality, integrity, and availability of payroll information before application-level processing controls can operate effectively. NIST describes physical and environmental protection controls as measures that limit physical access to systems and protect system infrastructure and supporting facilities; see NIST SP 800-53, Physical and Environmental Protection. Related guidance on securing organizational systems and their operating environments is also available in NIST Cybersecurity Framework 2.0.

## QUESTION NO: 93

Which of the following controls is most effective for preventing unauthorized changes to production database tables by application developers?

**A.** Requiring developers to complete secure-coding training.

**B.** Restricting production database update privileges to authorized deployment accounts.

**C.** Performing nightly backups of the production database.

**D.** Encrypting database backups before they are stored offsite.

## ANSWER: B

**Explanation:**

Restricting production database update privileges to authorized deployment accounts is correct because it directly prevents developers from using their individual credentials to modify production data or database structures. Developers may need

broad access in development and test environments, but production access should be limited according to least privilege and controlled release procedures.

A properly designed deployment process uses authorized service or deployment accounts, approved change records, and logging of production changes. This separation supports accountability and reduces the risk that untested or unauthorized changes will compromise the confidentiality, integrity, or availability of production data. NIST control AC-6 addresses least privilege, and CM-5 addresses restrictions on changes to production systems. See NIST SP 800-53.

## QUESTION NO: 94

Which of the following is the best approach to overcome entry barriers into a new business?

**A.** Offer a standard product that is targeted in the recognized market.

**B.** Invest in commodity or commodity-like product businesses.

**C.** Enter into a slow-growing market.

**D.** Use an established distribution relationship.

## ANSWER: D

**Explanation:**

Use an established distribution relationship is the best approach because access to reliable distribution channels is a significant entry barrier in many industries. A new entrant may have a viable product but still struggle to reach customers economically if retailers, wholesalers, platforms, or logistics providers are already committed to incumbent suppliers. Leveraging an established relationship can provide immediate channel access, market coverage, fulfillment capability, and customer credibility. It can also reduce the time, capital investment, and uncertainty involved in building a distribution network from the ground up.

From a business-analysis perspective, this approach directly addresses a structural barrier rather than merely selecting a particular product type or market-growth profile. Established channel partners can contribute market knowledge, sales support, and access to existing customer bases, helping the entrant establish a sustainable route to market. This is consistent with competitive-strategy analysis, which recognizes distribution access as an important determinant of whether market entry is feasible. The U.S. Small Business Administration discusses the value of partnerships and business relationships in supporting market access and growth: SBA market and sell your business guidance. The OECD also addresses how distribution and market access affect competition and entry conditions: OECD competition resources.

## QUESTION NO: 95

An organization accumulated the following data for the prior fiscal year:

Value of

Percentage of

Quarter

Output Produced

Cost X

1

$4,750,000

2.9

2

$4,700,000

3.0

3

$4,350,000

3.2

4

$4,000,000

3.5

Based on this data, which of the following describes the value of Cost X in relation to the value of Output Produced?

**A.** Cost X is a variable cost.

**B.** Cost X is a fixed cost.

**C.** Cost X is a semi-fixed cost.

**D.** Cost X and the value of Output Produced are unrelated.

**ANSWER: B**

**Explanation:**

**Cost X is a fixed cost.** The percentage figures can be converted into estimated Cost X amounts by multiplying each quarter's output value by its respective percentage. The resulting amounts are approximately $137,750 for the first quarter, $141,000 for the second, $139,200 for the third, and $140,000 for the fourth. These figures are essentially constant despite a material decrease in the value of output produced, from $4.75 million to $4.00 million.

This is the defining cost behavior of a fixed cost within the relevant range: total cost remains stable as activity changes, while the cost expressed as a percentage of output, or cost per unit of activity, moves inversely with output. Here, as output declines, the same roughly $140,000 cost represents a larger percentage of the output value, rising from 2.9% to 3.5%. Management and internal auditors use this relationship in cost analysis to assess operating leverage, budgeting assumptions, and the reasonableness of reported cost behavior. The underlying concepts of fixed costs and relevant range are described in OpenStax Principles of Managerial Accounting and in AccountingCoach's cost-behavior overview.