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Topic Break Down

Topic	No. of Questions
Topic 1, Internal Audit Fundamentals	45
Topic 2, Ethics and Professionalism	9
Topic 3, Governance, Risk Management, and Control	23
Topic 4, Fraud Risks	4
Total	81

QUESTION NO: 1

While planning an audit of access management, an engagement supervisor determines that the audit team lacks the technical expertise to evaluate privileged-access configurations in a complex application. Which of the following is the most appropriate action?

A. Obtain competent technical assistance and evaluate the specialist’s objectivity before relying on the work.

B. Exclude privileged-access configurations from the engagement because the audit team lacks technical expertise.

C. Accept management’s representation that privileged access is appropriately configured.

D. Assign the testing to the least experienced auditor to preserve senior resources for other work.

ANSWER: A

Explanation:

The engagement supervisor should obtain competent technical assistance and evaluate the specialist’s objectivity before relying on the work. Internal auditors are expected to possess or obtain the competencies needed to perform their responsibilities. Where specialized knowledge is required, assistance from an appropriately qualified specialist can enable the engagement team to evaluate the relevant risks and controls.

The internal audit activity remains responsible for the engagement, including defining the work needed, evaluating the sufficiency of information obtained, supervising the work, and reaching the audit conclusion. Reducing the scope solely because the team lacks expertise could leave a significant risk unaddressed, while relying exclusively on management’s assurance would not provide independent audit evidence.

QUESTION NO: 2

Which of the following statements is appropriate to include in a high-quality internal audit engagement communication?

A. The internal audit team conducted a review of the financial reporting process prior to year-end. The overall findings have been provided for management’s consideration prior to the completion of the organization’s annual external financial audit.

B. The internal audit team noted numerous weaknesses in the organization’s internal controls over financial reporting. The team recommends that management determine the root cause of the weaknesses.

C. The internal audit team conducted an engagement under the assumption that significant control weaknesses were likely. The purpose of the review was to uncover those weaknesses.

ANSWER: A

Explanation:

The internal audit team conducted a review of the financial reporting process prior to year-end. The overall findings have been provided for management’s consideration prior to the completion of the organization’s annual external financial audit. This is appropriate because it communicates the engagement’s subject matter and timing in a factual, professional, and constructive manner. It also clearly identifies that the results have been communicated to the responsible stakeholders at a time when management can consider them before the external financial audit is completed. Timely communication increases the practical value of internal audit work by enabling management to evaluate results and take informed action when appropriate.

The IIA’s Global Internal Audit Standards require engagement communications to be accurate, objective, clear, concise, constructive, complete, and timely. A statement that neutrally describes the review and the provision of overall findings supports these characteristics: it does not speculate, assign unsupported blame, or presume a particular outcome. It also reinforces internal audit’s role in providing relevant assurance and insight that helps the organization manage risks and support reliable financial reporting. See the IIA’s Global Internal Audit Standards and its overview of standards and guidance.

QUESTION NO: 3

Which of the following would be the best indicator that the organization ' s risk management processes are operating effectively?

A. Management openly discusses both risks and opportunities facing the organization.

B. Management established policies and procedures that state risk will be considered.

C. The organization implemented formal operational risk management processes.

ANSWER: A

Explanation:

Management openly discusses both risks and opportunities facing the organization is the best indicator because effective risk management is a living management practice, not merely a documented framework or a set of procedures. Open, routine discussion shows that leaders identify and assess uncertainty, consider its potential effect on objectives, and use that understanding when making decisions. It also indicates that risk information can move across the organization, be challenged appropriately, and be escalated when necessary. Considering opportunities alongside threats is particularly important: risk management supports the achievement of objectives by helping management make informed choices about both potential downside and upside effects of uncertainty.

The IIA’s Global Internal Audit Standards describe risk management as processes that identify, assess, manage, and control potential events or situations that could affect the achievement of objectives. Evidence that management actively engages with risk information in its governance and decision-making is therefore stronger evidence of effective operation than the mere existence of policies or formal processes. COSO likewise emphasizes integrating risk and opportunity considerations with strategy-setting and performance. See the IIA Global Internal Audit Standards and COSO Enterprise Risk Management guidance.

QUESTION NO: 4

As part of the annual training plan, the chief audit executive (CAE) has arranged for a local audit training institute to provide an in-house training session for the internal audit team. Which of the following best explains the primary purpose of this approach?

A. It helps the internal auditors maintain a required level of proficiency.

B. It helps the internal audit activity attain an appropriate organizational status to maintain independence.

C. It assists the CAE with assessing the results of the internal audit team ' s development efforts.

ANSWER: A

Explanation:

It helps the internal auditors maintain a required level of proficiency. The primary purpose of arranging relevant in-house training is to maintain and strengthen the knowledge, skills, and other competencies the internal audit team needs to perform its responsibilities effectively. Training delivered by a specialist audit institute can address emerging risks, revised professional practices, audit methodologies, technology, regulation, or subject-matter knowledge that is relevant to the team’s planned work. This supports both individual capability and the internal audit activity’s ability to deliver quality assurance, advisory, and engagement services.

The IIA’s Global Internal Audit Standards require internal auditors to possess or obtain the competencies needed to perform their responsibilities successfully and require the chief audit executive to ensure the internal audit function collectively possesses the competencies necessary to fulfill its mandate. A structured annual training plan is a practical mechanism for identifying and addressing development needs, while also supporting continuing professional development. Maintaining proficiency is therefore the direct professional objective of the training session. See the IIA’s Global Internal Audit Standards and its Standards and guidance resources.

QUESTION NO: 5

Which of the following analytical procedures would be most effective for an internal auditor to examine changes in performance over time?

A. Trend analysis

B. Ratio analysis

C. Analysis of common size financial statements

ANSWER: A

Explanation:

Trend analysis is the most effective procedure for examining changes in performance over time because it compares the same measure across successive periods and identifies the direction, magnitude, and consistency of change. An internal auditor can use it to evaluate whether key performance indicators—such as sales, operating costs, inventory turnover, processing time, error rates, or budget variances—are increasing, declining, or behaving unexpectedly over months, quarters, or years. It also helps the auditor identify unusual fluctuations that may warrant further inquiry, such as a sudden increase in expenses, a declining collection rate, or a recurring pattern of control exceptions. The IIA's Global Internal Audit Standards require internal auditors to use relevant, reliable, and sufficient information and apply appropriate analysis to support conclusions. Comparing data over time is a practical way to develop risk-focused insights and target audit work toward significant deviations or emerging conditions. Trend analysis therefore directly addresses the objective of assessing performance changes across time periods. See the IIA's Global Internal Audit Standards and the U.S. Government Accountability Office's discussion of analytical procedures in GAO's Generally Accepted Government Auditing Standards.

QUESTION NO: 6

An internal auditor is testing whether inventory quantities recorded in the perpetual inventory system agree with quantities physically held in the warehouse. Which of the following procedures would provide the most reliable evidence?

A. Obtain a written representation from the warehouse manager that recorded quantities are accurate.

B. Review the prior-year external audit report for conclusions about inventory controls.

C. Observe a physical count and independently recount selected items before comparing the results with system records.

ANSWER: C

Explanation:

Observing a physical count and independently recounting selected items provides reliable evidence because the auditor directly obtains information about the quantities on hand and compares that information with the system record. The procedure also allows the auditor to assess relevant conditions, such as whether inventory is properly identified and whether count procedures are controlled. A warehouse manager's representation is less reliable because it is testimonial evidence from a responsible party, and a prior-year external audit report may not address current inventory quantities or current control operation.

QUESTION NO: 7

Which of the following is an important consideration when providing quality audit communications?

A. Include as much detail as possible.

B. Provide a fair and balanced assessment.

C. Demonstrate knowledge by using technical language.

ANSWER: B

Explanation:

Provide a fair and balanced assessment. Quality audit communication must give intended users a reliable, objective basis for understanding the engagement results and making decisions. A fair and balanced assessment presents the audit evidence, conclusions, and significance of results without distortion or undue emphasis. It communicates matters that require attention while also accurately reflecting relevant context, including effective practices or satisfactory conditions when they are material to understanding the overall result. This approach supports the internal audit function's credibility and helps management and the board focus on meaningful risks, controls, and improvement opportunities.

The IIA's Global Internal Audit Standards identify effective communication as clear, concise, constructive, complete, timely, and objective. Objectivity is especially important because communications should be factual, unbiased, and based on sufficient and reliable information. A balanced assessment does not mean minimizing significant issues; rather, it means reporting them proportionately and in context so the communication remains useful, trustworthy, and actionable. This aligns with the Standards' expectations for communicating engagement conclusions and results in a way that supports informed oversight and management action. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 8

Which of the following interview techniques would be most effective in a fraud investigation?

A. The interviewer should be positioned between the suspect and the door to discourage the suspect from leaving during the interview.

B. The interviewer should allow the suspect to use his own words and only interrupt if a point requires clarification.

C. The interviewer should ensure that only the interviewer and the suspect are present for the interview.

ANSWER: B

Explanation:

The interviewer should allow the suspect to use his own words and only interrupt if a point requires clarification. is the most effective technique because a fraud interview should obtain the interviewee's complete account in a manner that supports reliable fact gathering. Open-ended narration lets the suspect describe events, relationships, transactions, and decisions in language that is natural to them. This can produce details the interviewer did not anticipate and establishes a clear baseline account that can later be tested against documents, system records, and other evidence. Limiting interruptions helps maintain rapport and reduces the risk that the interviewer inadvertently supplies facts, suggests an answer, or disrupts a useful line of explanation. Clarifying questions remain appropriate when terminology, dates, amounts, identities, or sequences of events need to be made specific. The internal auditor should remain objective, exercise professional judgment, and document relevant information sufficiently to support conclusions. These principles align with the IIA's emphasis on obtaining reliable information and applying due professional care during engagements. Guidance on interviewing also recognizes open questions and attentive listening as core methods for eliciting a witness's own recollection. See the IIA Global Internal Audit Standards and the ACFE Fraud Examiners Manual.