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Topic Break Down

Topic	No. of Questions
Topic 1, Organizational Governance Related to Risk Management	55
Topic 2, Principles of Risk Management	48
Topic 3, Risk Management Assurance	95
Topic 4, Mix Questions	26
Total	224

QUESTION NO: 1

Which of the following control activities is the most effective to ensure users' levels of access are appropriate for their current roles?

A. The human resources department generates a monthly list of terminated and transferred employees and requests IT to update the user access as required.

B. Standardized user access profiles are developed and the appropriate access profiles are automatically assigned to new or transferred employees.

C. System administrator rights are assigned to one user in each department who can update user access of terminated or transferred employees immediately.

D. Department managers are required to perform periodic user access reviews of relevant systems and applications.

ANSWER: D

Explanation:

Department managers are required to perform periodic user access reviews of relevant systems and applications is the most effective control because managers are best positioned to confirm whether each employee's access remains aligned with the employee's current job responsibilities, authority, and business need. A periodic review is a detective and corrective access-governance control: it evaluates the access that actually exists in systems, identifies privileges that are excessive, obsolete, or inconsistent with a role change, and triggers timely removal or adjustment of those privileges. This provides continuing assurance rather than relying solely on access changes at a single point in time, such as hiring, transfer, or termination.

Effective access reviews should be performed at a frequency proportionate to the system's risk and should require managers to explicitly attest to users' access, investigate exceptions, and document remediation. This supports least privilege and helps prevent accumulated access—sometimes called privilege creep—as personnel responsibilities evolve. NIST's access-control guidance emphasizes review of access rights and adjustment when users' responsibilities change, while the IIA's Global Internal Audit Standards describe the importance of evaluating governance, risk management, and controls using a risk-based approach. See NIST SP 800-53, Access Control and IIA Global Internal Audit Standards.

QUESTION NO: 2

An internal auditor is reviewing employee travel data to identify opportunities to cut costs while ensuring adequate participation at conferences to support the organization's mission. Which of the following pieces of evidence would be sufficient for completing this task?

A. A log from the last year that includes dates of travel, conference titles, and conference objectives, all of which correspond with employee names and costs per trip.

B. A log that includes titles of conferences that all employees were invited to attend in the last year, along with the dates of those conferences and average costs per traveler.

C. A log of conferences titles, dates of travel for each employee, and a detailed summary of conference objectives and how they relate to the organization's mission needs.

D. A log of employee travel requests, which include the title of each conference, the conference objectives, anticipated dates of travel, and estimated costs.

ANSWER: A

Explanation:

A log from the last year that includes dates of travel, conference titles, and conference objectives, all of which correspond with employee names and costs per trip. is sufficient because it joins the information needed to assess both dimensions of the engagement: economy of travel spending and mission-related value of conference attendance. Actual, employee-level trip costs allow the auditor to identify spending patterns, compare trips or conferences, investigate unusually

costly travel, and quantify potential savings opportunities. Linking those costs to specific travel dates, conference titles, and employees also provides a usable audit trail for testing completeness, accuracy, authorization, and trends in participation.

Equally important, the documented conference objectives provide a basis for evaluating whether attendance supported organizational priorities. The auditor can compare each stated objective with the organization's mission, strategic goals, or staff-development needs while considering whether participation levels were adequate. Because all relevant attributes are connected at the individual-trip level and cover a completed period, the log supports reliable analysis rather than estimates or planned activity. This approach aligns with the Global Internal Audit Standards' expectation that auditors obtain relevant, reliable, and sufficient information to support engagement conclusions. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 3

An organization receives assurance over its customer onboarding process from compliance, quality assurance, information security, and internal audit. Each function tests some of the same identity-verification controls, while a significant risk involving outsourced document retention has not been assessed by any function.

Which action would provide the greatest improvement to the organization's assurance arrangements?

A. Assign all customer-onboarding testing to internal audit to establish a single source of assurance.

B. Require each assurance provider to expand its testing independently until all risks are covered.

C. Map significant risks and controls to assurance providers, then address both coverage gaps and unnecessary duplication.

D. Eliminate overlapping testing immediately because any duplication indicates ineffective assurance.

ANSWER: C

Explanation:

Map significant risks and controls to assurance providers, then address both coverage gaps and unnecessary duplication. is correct because the current arrangement contains both an assurance gap and inefficient overlap. A coordinated assurance approach identifies the risks and controls requiring assurance, the nature and reliability of work performed by each provider, and the remaining areas where the board lacks sufficient assurance.

Assigning all work to internal audit would reduce the value of specialized first- and second-line monitoring and could improperly make internal audit responsible for routine control oversight. Eliminating duplicated work without considering the unassessed outsourced-retention risk would leave a significant gap. Internal audit can facilitate or evaluate the assurance mapping process while management and other assurance providers retain responsibility for their respective activities.

QUESTION NO: 4

Which of the following is not an appropriate activity for internal auditors to perform?

A. Recommend management seek a consulting firm to advise on outsourcing.

B. Highlight matters that require management's attention.

C. Implement solutions for specific organizational problems.

D. Accumulate data, obtain varying views, and report information to senior management.

ANSWER: C

Explanation:

Implement solutions for specific organizational problems. is not an appropriate activity for internal auditors because implementation is a management responsibility. Internal audit may provide advisory services, identify control or risk issues, communicate information to senior management, and offer recommendations based on its expertise. However, management must retain ownership of decisions, actions, controls, and operational outcomes. If internal auditors implement a solution,

they may later be required to assess the design or effectiveness of work they performed, creating a self-review threat and impairing, or appearing to impair, their objectivity.

The IIA's Global Internal Audit Standards require internal auditors to maintain objectivity and avoid assuming management responsibility. Advisory work is permissible when its scope is agreed and the engagement does not result in internal audit taking responsibility for managing risks or operating controls. Accordingly, internal audit can help management understand alternatives and evaluate proposed solutions, but management should select, authorize, and implement the solution. This separation preserves internal audit's independent assurance role and enables it to evaluate the implemented process objectively in a future engagement. See the IIA Global Internal Audit Standards and the IIA's mandatory guidance and standards resources.

QUESTION NO: 5

Which of the following scenarios best illustrates a rationalization as the root cause of potential fraud?

A. Managers who have been with the organization for several decades become aware that newly hired, younger managers are being moved more quickly into senior positions.

B. The controller at a nationwide manufacturing company recently opted to no longer require two-week mandatory vacations for accounting staff.

C. Security cameras that monitor cash handling at the register are not functioning.

D. The organization is slowly phasing out three mature products that produce the highest commissions for the sales staff.

ANSWER: A

Explanation:

Managers who have been with the organization for several decades become aware that newly hired, younger managers are being moved more quickly into senior positions best illustrates rationalization because perceived unfair treatment can enable an individual to justify dishonest conduct to themselves. Rationalization is the mindset that makes fraud seem acceptable or deserved—for example, an employee may believe that the organization has failed to reward their loyalty, that they are being treated inequitably, or that they are merely taking what they have earned. Such self-justification can remove an internal ethical barrier and make a fraudulent act appear defensible in the person's own view. In fraud-risk work, internal audit should consider cultural and personnel conditions that could foster perceived injustice, resentment, or entitlement, because these conditions can affect how people rationalize misconduct. The IIA's Global Internal Audit Standards require internal auditors to evaluate fraud risks and consider factors that could contribute to fraud. Guidance on fraud prevention also recognizes rationalization as a core element of the fraud triangle. See the IIA Global Internal Audit Standards and the ACFE overview of fraud.

QUESTION NO: 6

An internal auditor is asked to facilitate a workshop in which senior managers identify emerging risks associated with a proposed acquisition. The auditor is also scheduled to lead a future assurance engagement on the organization's acquisition governance process.

Which approach best preserves the internal auditor's objectivity?

A. Facilitate the discussion without determining risk ownership, selecting risk responses, or making management decisions.

B. Facilitate the discussion and assign an accountable executive to each identified risk.

C. Approve the proposed acquisition risk response after the workshop to ensure prompt action.

D. Decline the workshop because internal audit may not participate in any risk-identification activity.

ANSWER: A

Explanation:

Facilitate the discussion without determining risk ownership, selecting risk responses, or making management decisions. is correct because internal audit may provide advisory services, including facilitation, when the work does not result in the auditor assuming management responsibility. The auditor can use structured questions, challenge assumptions, and document risks identified by management without becoming responsible for the resulting risk decisions.

Assigning risk owners or approving the acquisition response would make the auditor part of management's process and create a self-review threat in the later assurance engagement. Declining all facilitation work is unnecessary when appropriate boundaries and safeguards can be maintained. The auditor should also ensure that the advisory role, responsibilities, and any relevant limitations are clearly understood by the participants.

QUESTION NO: 7

A business unit reports that its key risk indicator for payment fraud is within the approved threshold. Internal audit determines that the indicator measures only confirmed fraud losses, while the volume of blocked fraudulent attempts and unresolved payment exceptions has increased substantially.

Which weakness is most evident in management's risk monitoring?

A. The indicator does not provide sufficiently complete and timely information about changes in the underlying risk exposure.

B. The indicator is ineffective because all key risk indicators must measure financial losses only.

C. The indicator is ineffective because blocked fraudulent attempts should be treated as control failures.

D. The indicator is appropriate because confirmed losses are the only events that affect residual risk.

ANSWER: A

Explanation:

The indicator does not provide sufficiently complete and timely information about changes in the underlying risk exposure. is correct because confirmed fraud losses are a lagging measure. They may remain low when preventive controls successfully block attempts, even though the frequency of attempted fraud or unresolved exceptions indicates that the threat environment and control pressure are increasing.

A useful risk-monitoring process should use information that is relevant to the risk and capable of prompting timely management action. Blocked attempts and unresolved exceptions may be leading or predictive measures that complement loss data. The issue is not that management must eliminate all fraud attempts, nor that internal audit should establish the threshold. Internal audit should assess whether the metrics provide decision-makers with a reliable view of risk exposure and control performance.

QUESTION NO: 8

During an audit, the client questions the internal audit activity's authority to perform procedures over fraud allegations. According to HA guidance, which of the following would provide the most relevant support to respond to the client's concerns?

A. Definition of Internal Auditing.

B. MA Standards.

C. Internal audit charter.

D. The IIA's Code of Ethics.

ANSWER: C

Explanation:

The internal audit charter is the most relevant support because it is the formal document that establishes the internal audit activity’s purpose, authority, and responsibility within the organization. It is approved by the board and should explicitly

authorize internal audit's access to records, personnel, physical properties, and other information needed to perform its engagements. Where procedures concerning fraud allegations fall within the activity's approved mandate, the charter provides the direct organizational basis for internal audit to conduct the work and to explain that authority to management or an auditee.

The Global Internal Audit Standards require the chief audit executive to develop, implement, and periodically review a charter, and require the board to approve it. The charter must define the internal audit activity's mandate and authority, including unrestricted access necessary to fulfill its responsibilities. Fraud-related assurance or investigative procedures may be performed when they are within that mandate, while recognizing that management retains responsibility for fraud risk management and prevention. See the IIA's Global Internal Audit Standards and its mandatory guidance resources.

QUESTION NO: 9

An internal audit activity includes in its audit reports the assertion that its work is performed in conformance with the International Standards for the Professional Practice of Internal Auditing {Standards). A recent external quality assessment concluded that the internal audit activity had substantial deficiencies that impact its overall operations. According to IIA guidance, which of the following is the most appropriate action for issuing future audit reports?

A. Refrain from indicating that the internal audit activity operates in conformance with the Standards until the chief audit executive confirms that the internal audit activity has addressed all areas of nonconformance and the audit committee has been notified.

B. Refrain from indicating that the internal audit activity operates in conformance with the Standards until another external assessment confirms that the significant areas of nonconformance have been addressed.

C. Indicate that the internal audit activity operates in partial conformance with the Standards, as the internal audit activity has a quality assurance and improvement program in place to address deficiencies and has met the requirement for conducting an external assessment.

D. Update and reissue previous audit reports, removing the assertion that the internal audit activity operates in conformance with the Standards, and distribute them to all parties who received the original reports.

ANSWER: B

Explanation:

"Refrain from indicating that the internal audit activity operates in conformance with the Standards until another external assessment confirms that the significant areas of nonconformance have been addressed." is the appropriate action. Under the International Standards for the Professional Practice of Internal Auditing, a chief audit executive may state that the internal audit activity conforms with the Standards only when the results of its quality assurance and improvement program support that statement. An external quality assessment finding substantial deficiencies that affect the activity's overall operations means the evidence no longer supports a conformance assertion.

The activity should implement and document corrective actions through its quality assurance and improvement program, but it should not resume its public claim of conformance solely on management's internal conclusion that remediation is complete. Because the adverse conclusion arose from an external assessment and concerns significant, activity-wide deficiencies, a subsequent external assessment is needed to independently validate that the relevant nonconformities have been effectively addressed. This protects the credibility of the internal audit activity's assurance and provides stakeholders with a reliable basis for relying on the conformance statement. The IIA's standards framework emphasizes that quality assessment evidence must substantiate any assertion of conformance. See the IIA's Standards resources and its Quality Assurance resources.

QUESTION NO: 10

Which of the following does not need to be defined in the internal audit charter?

A. The audit engagements to be performed during the upcoming year.

B. The internal audit activity's position within the organization.

C. The scope of internal audit activities.

D. Management and the board of directors' agreement regarding the roles and responsibilities of the internal audit activity.

ANSWER: A

Explanation:

The audit engagements to be performed during the upcoming year. is correct because the internal audit charter establishes the internal audit activity's enduring mandate, rather than its detailed, time-bound work schedule. Under the IIA's Global Internal Audit Standards, the charter documents the internal audit activity's purpose, organizational position, authority, responsibilities, and the nature and scope of internal audit services. It provides the formal foundation that enables the activity to perform its work with appropriate authority, access, and independence.

Specific audit engagements for the next year belong in the risk-based internal audit plan, not in the charter. The chief audit executive develops that plan based on an assessment of strategies, objectives, risks, and relevant input from senior management and the board. The plan is normally reviewed and approved by the board and is updated when risk conditions, organizational priorities, or resource availability change. Keeping individual annual engagements out of the charter allows the charter to remain stable while the audit plan can adapt to evolving risks and assurance needs. See the IIA's Global Internal Audit Standards and its Standards resources.

QUESTION NO: 11

Which of the following factors have the greatest influence on the independence of the internal audit activity?

A. Quality assessments and cultural biases of the internal audit activity.

B. Rotational assignments and familiarity of the internal audit activity.

C. Employee incentives and self review of the internal audit activity.

D. Organizational positioning and scope control of the internal audit activity.

ANSWER: D

Explanation:

Organizational positioning and scope control of the internal audit activity. is correct because independence fundamentally depends on the internal audit function's placement in the organization and its authority to determine and perform its work free from inappropriate interference. Appropriate organizational positioning includes functional accountability to the board, or an equivalent governing body, which supports the chief audit executive's ability to communicate directly with the board and escalate impairments to independence. It also requires sufficient seniority and unrestricted access to records, personnel, physical property, and information relevant to engagements.

Control of the audit scope is equally essential. The internal audit activity must be able to establish a risk-based plan, define engagement objectives and scope, perform procedures, and communicate results without management improperly limiting, directing, or suppressing its work. These structural safeguards enable internal audit to provide objective assurance and advice across the organization. The IIA's Global Internal Audit Standards address these requirements through principles covering board oversight, organizational independence, and protection from undue influence. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 12

According to IIA guidance, which of the following external groups is most likely to represent a liability risk, based on activities associated with the organization's corporate social responsibility program?

A. Consumers.

B. Activists.

C. Suppliers.

D. Investors.

ANSWER: B

Explanation:

Activists. is correct because activist organizations and advocacy groups can create liability exposure when they challenge an organization's social, environmental, labor, human-rights, or community-impact practices. Their activities may include public campaigns, formal complaints, requests for regulatory investigation, shareholder proposals, or support for litigation. Where an organization's corporate social responsibility statements, published commitments, supply-chain claims, or actual conduct are alleged to be misleading or inconsistent, these challenges can contribute to legal claims, regulatory scrutiny, remediation costs, and related governance consequences. This makes activists a significant external stakeholder group for risk management assurance: management should identify the commitments that may create obligations, maintain reliable evidence supporting CSR disclosures, monitor emerging stakeholder concerns, and escalate material allegations appropriately. Internal audit can provide assurance that CSR governance, risk assessment, reporting controls, and due-diligence processes are designed and operating effectively. The IIA's standards require internal audit to evaluate and contribute to the improvement of governance, risk management, and control processes, including risks arising from stakeholder expectations and organizational conduct. See the IIA Global Internal Audit Standards and the UN Global Compact's principles regarding organizational responsibilities in areas commonly addressed by CSR programs.

QUESTION NO: 13

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

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

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

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

D. They are useful in assessing risk.

ANSWER: C

Explanation:

"They do not capture all controls that may exist." is the most significant disadvantage because a checklist is necessarily built around controls anticipated by its author. It provides a structured prompt for evaluating expected control activities, but it cannot by itself ensure that the evaluator identifies informal, compensating, newly implemented, process-specific, or otherwise unlisted controls. An internal control environment must be understood in the context of the organization's actual objectives, risks, processes, people, systems, and governance arrangements. Accordingly, a checklist should support—not replace—professional judgment, inquiry, walkthroughs, observation, and inspection of evidence. When an evaluator relies too heavily on a predefined list, the assessment can become incomplete and may fail to reflect how controls truly operate in practice. The IIA's Global Internal Audit Standards emphasize applying professional judgment and using appropriate information to reach well-supported conclusions; this supports tailoring control evaluation procedures to the engagement rather than treating a checklist as exhaustive. COSO similarly describes internal control as an integrated, organization-specific process, requiring evaluation of relevant principles and controls in their operating context. See the IIA Global Internal Audit Standards and COSO's Internal Control guidance.

QUESTION NO: 14 - (SIMULATION)

According to IIA guidance, which of the following scenarios demonstrates an internal auditor exercising due professional care?

When auditing investments, the auditor identified instruments with which he was unfamiliar. He decided not to select that type of investment in his sample, as he did not have the knowledge needed to A. perform a proper assessment.

B. An auditor was reviewing inventory counts conducted by the warehouse staff. One truck containing an immaterial amount of inventory was off-site and wasn't verified by the auditor.

C. An auditor visited a plant that produces a significant portion of the organization's inventory. The day he arrived, the plant manager was out sick, so the auditor issued the report without interviewing the manager.

D. An auditor in charge needed to have testing completed by the end of the month, but was behind schedule. He identified a junior auditor to conduct the work for him on a complex area of the organization.

ANSWER: See the explanation for the answer

Explanation:

Correct answer: B.

The auditor exercised due professional care by not verifying the truck that contained an **immaterial** amount of inventory. Due professional care requires auditors to consider the relative materiality, complexity, and risk of error or irregularity when determining the nature and extent of audit procedures. An immaterial off-site item may reasonably be excluded from direct verification when the resulting audit risk is acceptable.

A: The auditor should obtain appropriate assistance or expertise for unfamiliar investments rather than simply exclude them from the sample.
C: Issuing a report without obtaining potentially relevant input from the plant manager is not sufficiently diligent.
D: Assigning a complex area to a junior auditor solely because of a deadline, without ensuring suitable competence and supervision, does not demonstrate due care.

QUESTION NO: 15

According to IIA guidance, which of the following describes the primary reason to implement environmental and social safeguards within an organization?

A. To enable Triple Bottom Line reporting capability.

B. To facilitate the conduct of risk assessment.

C. To achieve and maintain sustainable development.

D. To fulfill regulatory and compliance requirements.

ANSWER: C

Explanation:

“To achieve and maintain sustainable development.” is correct because environmental and social safeguards are preventive management measures intended to ensure that organizational decisions, projects, and operations account for their effects on people, communities, and the environment. Their central purpose is to avoid, minimize, mitigate, or manage adverse environmental and social impacts while supporting outcomes that remain viable over the long term. This aligns with sustainable development: meeting current needs while protecting the ability of future generations to meet theirs. For assurance professionals, safeguards are therefore relevant to evaluating whether governance, risk management, and controls address environmental and social risks as integral parts of organizational strategy and value creation. They support responsible conduct and resilience by embedding consideration of issues such as environmental impacts, stakeholder well-being, labor practices, and community effects into the organization’s processes. The IIA’s Global Internal Audit Standards emphasize that internal auditing promotes an organization’s ability to create, protect, and sustain value, which provides the governance and assurance context for reviewing such safeguards. Sustainable development is also grounded in the United Nations’ framework for balancing economic, social, and environmental objectives. See the IIA Global Internal Audit Standards and the United Nations Sustainable Development Goals.

QUESTION NO: 16

An internal auditor in a small broadcasting organization was assigned to review the revenue collection process. The auditor discovered that some checks from three customers were never recorded in the organization's financial records. Which of the following documents would be the least useful for the auditor to verify the finding?

A. Bank statements.

B. Customer confirmation letters.

C. Copies of sales invoices.

D. Copies of deposit slips.

ANSWER: C

Explanation:

Copies of sales invoices. are the least useful document for verifying that customer checks were received but omitted from the financial records. A sales invoice establishes that the organization billed a customer and identifies the amount that was due; it does not, by itself, establish that the customer subsequently remitted payment, identify the check used for payment, or demonstrate the organization's custody or deposit of that check. Consequently, invoice copies provide background evidence of the underlying revenue transaction, rather than direct evidence of the specific alleged omission in cash-receipts recording.

To verify this type of finding, the auditor needs sufficient, reliable, relevant, and useful information that directly connects customer remittances to the organization's receipt and recording process. The most persuasive evidence concerns payment confirmation, receipt, deposit, and bank clearing. Invoice information can help identify the customer balance against which a payment should have been applied, but it cannot independently substantiate that an unrecorded check existed or was received. This distinction follows the Global Internal Audit Standards' expectation that auditors base conclusions on information that is relevant and reliable, and evaluate evidence in relation to the engagement objective. See the IIA Global Internal Audit Standards and the COSO Internal Control guidance.

QUESTION NO: 17

Reviewing prior audit reports and supporting workpapers before an engagement starts enables an internal auditor to do which of the following?

1. To understand better the activity and processes that will be audited.

2. To identify the audit procedures that will be used during the engagement.

3. To ensure that matters of greatest vulnerability will be addressed.

4. To use the information obtained as evidence in the current engagement.

A. 4 only

B. 1 and 3 only

C. 1 and 4 only

D. 2, 3, and 4 only

ANSWER: B

Explanation:

1 and 3 only is correct. Reviewing prior audit reports and their supporting workpapers is a valuable engagement-planning activity because it gives the internal auditor relevant historical knowledge of the area under review. Prior documentation can describe the activity's processes, systems, controls, organizational context, prior objectives and scope, and issues identified in earlier work. This background enables the auditor to develop a more informed understanding of the activity and processes that will be audited.

The review also helps focus planning on risk. Previous observations, control deficiencies, unresolved management action plans, recurring issues, and changes since the prior audit can indicate where residual risk or vulnerability may be greatest. The engagement can then be scoped and designed to address these important risk areas appropriately. This supports a risk-based approach to engagement planning and helps ensure that audit resources are directed toward matters most relevant to the engagement objectives.

The IIA's Global Internal Audit Standards require internal auditors to understand the activity under review and assess relevant risks when planning engagements. See the IIA Global Internal Audit Standards and the IIA's practice guides for engagement-planning guidance.

QUESTION NO: 18

During an audit of strategic planning, internal audit finds that management has identified a possible regulatory change that could materially affect a planned expansion. Management has not estimated the likelihood of the change because the regulator has not issued a timetable. The risk is therefore omitted from the strategic risk report.

Which recommendation would be most appropriate?

A. Defer all consideration of the regulatory change until the regulator announces a timetable.

B. Assign the risk a high likelihood rating because all regulatory changes are disruptive.

C. Evaluate plausible scenarios and establish triggers for reassessing the risk.

D. Remove the expansion from the strategic plan until the risk can be measured precisely.

ANSWER: C

Explanation:

Management should evaluate the potential effect of the regulatory change using reasonable scenarios and establish monitoring triggers. Uncertainty about timing does not justify omitting a potentially material risk from strategic decision-making. Risk assessment often requires management to use assumptions, ranges, and scenarios when precise likelihood information is unavailable.

Internal audit should not prescribe the expansion decision or require management to assign an artificial probability. The key weakness is that the risk-reporting process excludes a relevant uncertainty merely because it cannot yet be precisely quantified. Scenario analysis and defined triggers can support timely reassessment as regulatory developments emerge.

QUESTION NO: 19

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

A. Hire a risk consultant.

B. Implement a hedging strategy.

C. Maintain a large foreign currency balance.

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

ANSWER: B

Explanation:

Implement a hedging strategy is the most effective strategy because it directly addresses the financial exposure created when a company makes sales denominated in a foreign currency. Between the sale date and the date payment is received and converted, exchange-rate movements can reduce the home-currency value of the receivable. A hedging program can use instruments such as forward exchange contracts, currency options, or swaps to offset this variability. For example, a forward contract can lock in the exchange rate at which an expected foreign-currency receipt will be converted, making the cash flow more predictable and reducing the risk that an adverse currency movement erodes the sale’s margin. Effective hedging should be aligned with the organization’s risk appetite, its forecast foreign-currency exposures, approved counterparty limits, and documented treasury policies. Management should also monitor hedge effectiveness and ensure that the selected instrument, amount, and maturity correspond to the underlying receivable exposure. This is a risk-response approach that reduces the likelihood or financial impact of foreign-exchange volatility while allowing the organization to continue serving foreign customers. The Financial Accounting Standards Board describes foreign-currency risk management and hedging considerations in its guidance at FASB Accounting Standards Codification; practical background on foreign-exchange risk is also available from the International Monetary Fund.

QUESTION NO: 20

During an audit engagement, the internal auditor discussed a risk mitigation recommendation with the manager of the area under review. The manager disagreed with the risk assessment and recommendation. The two failed to come up with an alternative solution, and the auditor decided to proceed with including the original recommendation in the engagement report. Which of the following is especially important in dealing with this type of situation?

A. Soft skills in communication, negotiation, and collaboration.

B. Technical skills in the area under review.

C. Professional qualifications and certification in internal auditing.

D. Confidentiality and independence.

ANSWER: A

Explanation:

Soft skills in communication, negotiation, and collaboration are especially important when an auditor and engagement client disagree about a risk assessment or recommended action. The auditor must be able to explain the risk, its likely impact, and the rationale for the recommendation clearly and objectively, while also actively listening to management's perspective and relevant operational constraints. Constructive discussion can clarify facts, test assumptions, identify practical alternatives, and preserve a professional working relationship even if agreement cannot ultimately be reached.

The auditor should communicate with respect and professional courage, distinguishing the factual basis for the audit conclusion from management's acceptance of the recommendation. If no mutually acceptable alternative is identified, effective communication enables the report to accurately state the issue, associated risk, and recommendation in language that is fair, clear, and useful to the intended recipients. These capabilities support the internal audit function's responsibility to communicate engagement results effectively and promote improvement. The IIA's Global Internal Audit Standards emphasize effective communication and relationship building, and the IIA's mandatory guidance resources support professional, evidence-based engagement communication.

QUESTION NO: 21

To fill a critical vacancy, an internal auditor is assigned temporarily to a nonaudit role in the purchasing department, where she worked previously before joining the internal audit activity. According to IIA guidance, which of the following statements is true regarding these circumstances?

A. The chief audit executive (CAE) should review all work performed by the auditor during her temporary assignment to ensure no impairments.

B. The CAE may conduct audits in the purchasing department during the auditor's temporary assignment.

C. The auditor should obtain the CAE's approval as to the nature and scope of the duties she is permitted to perform during her temporary assignment.

D. Any work performed by the auditor during her temporary assignment must conform to the internal audit charter.

ANSWER: C

Explanation:

The auditor should obtain the CAE's approval as to the nature and scope of the duties she is permitted to perform during her temporary assignment. A temporary assignment outside the internal audit activity can create actual or perceived impairments to organizational independence and individual objectivity, particularly when the assignment involves operational purchasing responsibilities. The CAE must therefore be informed and exercise oversight before the auditor accepts or performs such duties. Approval should clearly define the assignment's purpose, permitted responsibilities, authority, duration, and safeguards. This allows the CAE to assess whether the arrangement is necessary, identify management responsibilities that the auditor may assume temporarily, and ensure that resulting impairments are documented and managed appropriately. The arrangement also requires planning for the auditor's later return to internal audit work. In particular, the internal audit activity should not provide assurance over activities for which the auditor had responsibility until the relevant cooling-off

period and appropriate safeguards have been applied. These measures preserve the credibility of internal audit's conclusions while permitting the organization to address an exceptional staffing need. The IIA's Global Internal Audit Standards require internal auditors and the CAE to identify, disclose, and manage impairments to independence and objectivity. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 22

Given the highly technical and legal nature of privacy issues, which of the following statements best describes the internal audit activity's responsibility with regard to assessing an organization's privacy framework?

A. If an organization does not have a mature privacy framework, the internal audit activity should assist in developing and implementing an appropriate privacy framework.

B. Because the audit committee is ultimately responsible for ensuring that appropriate control processes are in place to mitigate risks associated with personal information, the internal audit activity is C. required to conduct privacy assessments.

C. The internal audit activity may delegate to nonaudit IT specialists the responsibility of determining whether personal information has been secured adequately and data protection controls are sufficient.

D. The internal audit activity should have appropriate knowledge and competence to conduct an assessment of the organization's privacy framework.

ANSWER: D

Explanation:

The internal audit activity should have appropriate knowledge and competence to conduct an assessment of the organization's privacy framework. Privacy governance involves a combination of legal obligations, technical safeguards, data-handling practices, third-party arrangements, and risk management. Therefore, an effective assessment requires auditors to understand the relevant privacy requirements and to be able to evaluate whether governance, risk assessment, controls, monitoring, and reporting are designed and operating in a way that supports the organization's privacy objectives.

This responsibility is consistent with the Global Internal Audit Standards, which require internal auditors to possess or obtain the competencies needed to perform their responsibilities and require the chief audit executive to ensure that the internal audit function collectively has the necessary knowledge, skills, and other competencies. When specialized expertise is needed, the activity can obtain competent assistance; however, it must maintain appropriate oversight and remain accountable for the assurance engagement. A privacy assessment should be risk-based and consider the organization's processing of personal information throughout its lifecycle, consistent with recognized privacy risk-management practices such as the NIST Privacy Framework. See also the IIA's Global Internal Audit Standards.