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Question: 1

Which of the following scenarios best demonstrates the application of internal audit proficiency?

A. Management requests that the internal audit activity review and provide feedback on its strategic plans for a merger, but the chief audit executive (CAE) declines the engagement due to the team's lack of experience with mergers.
B. A CAE reassigns auditors from other audits to perform testing on all of the fixed asset additions for a period, including amounts below the materiality level stated by external auditors.
C. Due to the routine and recurring nature of bank branch audits, an audit manager often excludes detailed planning at the beginning of the audit and immediately performs fieldwork.
D. During fieldwork, an auditor observed a lack of segregation of duties over cash management. The auditor reported this observation to his supervisor, who decided that the area should be examined in a subsequent audit.

Answer: A

Question: 2

Which of the following is an example of a risk avoidance strategy?

A. Hedging against exchange rate variations.
B. Limiting access to an organization’s data center.
C. Selling a nonstrategic business unit.
D. Outsourcing a high-risk activity

Answer: C

Question: 3

An accounts payable clerk who has access to the vendor master file replaced the payment details of a legitimate vendor with those of a friend before processing the payment through the organization's cashier. Immediately afterward, he restored the original vendor information. Which of the following controls could have prevented this fraud?

A. Approval of master file change requests by the accounts payable supervisor
B. Comparison of the check register to original invoices.
C. Segregation of duties between accounts payable and the cashier.
D. Frequent issuance of account statements sent to the vendors.

Answer: A

Question: 4

The internal auditor obtained large volumes of transaction history data for accounts on which he suspected that some fraudulent transactions occurred. Which of the following actions best demonstrates due professional care by the internal auditor?

A. The internal auditor carefully scrutinized the data by manually reviewing each transaction to ensure that all irregularities were identified.
B. The internal auditor employed the use of data analytics tools to sort, analyze, and detect anomalies in the data
C. The internal auditor started the data analysis process by selecting a random sample of transactions on which to perform further tests.
D. The internal auditor requested that the branch supervisor assist in identifying fraudulent transactions, as he was most familiar with the accounts being audited.

Answer: B

Question: 5

Who is responsible for setting the risk appetite?

A. External auditors.
B. Chief risk officer.
C. Operations management.
D. Board of directors.

Answer: D

Question: 6

Which of the following would provide the best support for internal auditors to meet their continuing professional development requirements?

A. Access to online internal audit and business skills courses.
B. Records of self-assessment reports completed by the internal audit staff.
C. Cosourcing arrangements with external providers on specific engagements.
D. Performance reviews comparing internal auditors' achievements against specified goals.

Answer: A

Question: 7

In which of the following scenarios would the chief audit executive (CAE) be required to decline the assignment?

A. The CAE would need to procure external services to deliver the internal audit assurance program.
B. There is no expertise within the internal audit team for detecting and investigating fraud.
C. There is no expertise within the internal audit team for auditing an IT engagement.
D. There is no available expertise on the internal audit team to perform a consulting engagement

Answer: D

Question: 8

According to IIA guidance, which of the following statements is true regarding ISO 31000?

A. The key principles approach checks whether each element of the risk management process is in place.
B. The framework is effective in addressing the organization's structure, size, and risk profile but not its culture objectives.
C. The end point for improving an organization s approach to risk management should be a gap analysis that evaluates any changes.
D. A combination of the three primary approaches to the framework generally yields the most information despite the complexity

Answer: D

Question: 9

What should the chief audit executive do when the internal audit activity is found to be in nonconformance with the Code of Ethics or the Standards?

A. Assign competent staff to the area under audit to remediate the nonconformance.
B. Determine how the deviation impacted the overall scope of the internal audit activity.
C. Meet with the board to gam an understanding of the board's expectations.
D. Communicate the matter to the board at the time of the next external assessment.

Answer: D

Question: 10

The internal audit activity audited an organization's risk management function multiple times, and the recommendations that were made remain unaddressed by the head of risk management. Which of the following would be the next step for the internal audit activity?

A. The internal audit activity should add value by implementing the recommendations on management's behalf.
B. The chief audit executive (CAE) must discuss this matter with senior management and the board
C. The CAE should determine which recommendations to implement based on the severity of the associated risks.
D. The internal audit activity, led by the CAE. should assume responsibility for risk management function.

Answer: B

Question: 11

Which of the following conditions classifies an engagement as a consulting service provided by the internal audit activity?

A. The internal auditor assigned to the engagement previously worked in the area under review and lacks objectivity.
B. The internal audit engagement will involve providing an opinion on the effectiveness of controls.
C. The internal auditor assigned to the engagement was specifically requested by management of the area under review.
D. he internal audit engagement involves only two parties: the internal auditor and the engagement client.

Answer: C

Question: 12

A whistleblower reveals to the chief audit executive (CAE) detailed allegations of potential fraud at the senior management level. Although the CAE has some experience in the area, she chooses to retain an external fraud expert to conduct the investigation. When asked by the director of finance to defend the expenditure, which of the following statements represents the CAE's best response?

A. The CAE refers to the Standards and explains that to protect her independence, she needs to remain isolated from the investigation.
B. The CAE refers to the Standards and explains that the internal audit activity must obtain competent assistance if needed.
C. The CAE refers to the Standards and explains that to protect her objectivity, she needs to remain isolated from the investigation.
D. The CAE describes the specifics of the allegation to underscore the importance of the situation and the need for expert investigation

Answer: B

Question: 13

Guidelines need to be set for various levels of suspected fraud within an organization and when it would be reported to the audit committee. Which of the following would be reported at the next meeting?

A. Minor theft of less than $10,000, not involving senior management.
B. Theft using collusion for more than $10,000. but not involving senior management.
C. Denial of access to requested employees during an audit.

D. Discussion of replacement of the chief audit executive.

Answer: B

Question: 14

To assure that the technical proficiency of internal auditors is appropriate for the audit engagements to be performed, a chief audit executive should:

A. Consider the scope of work and level of responsibility when establishing criteria for education and experience in filling internal audit positions.
B. Ensure that each newly hired auditor is qualified in all of the disciplines needed to accomplish the department's audit mission.
C. Oversee a training program that matches the actual training provided with the interests of individual auditors.
D. Require all of the audit staff to pursue a minimum number of continuing professional education hours each year

Answer: A

Question: 15

Which of the following is a detective control strategy against fraud?

A. Requiring employees to attend ethics training.
B. Performing background checks on employees.
C. Implementing a control self-assessment.
D. Performing a surprise audit

Answer: D

Question: 16

Which of the following statements is true regarding the disclosure of results of the quality assurance and improvement program?

A. If the results of both internal and external assessments support conformance with the Standards, the internal audit activity must communicate this to the board and senior management in writing.
B. If it has been in existence fewer than five years and has no documented external assessment, the internal audit activity may not indicate that it is operating in conformance with the Standards.
C. If nonconformance affects its ability to fulfill its professional responsibilities or stakeholder expectations, the internal audit activity should disclose nonconformance as well as its impact.
D. If an external assessment reflects an overall conclusion of nonconformance, the internal audit activity may continue to communicate that it conforms with theStandards if it discloses a remediation plan, including timeline with subsequent validation.

Answer: C

Question: 17

Following a quality assurance review of a small internal audit activity, the external reviewer and the chief audit executive (CAE) cannot agree on the importance of several deficiencies noted during the review. Which of the following would be the most appropriate next step for the reviewer to take?

A. Remove the areas of disagreement from the scope of the engagement and seek informal compromises with the CAE.
B. Issue the report to senior management, noting the deficiencies for immediate resolution.
C. Issue the report, noting the deficiencies with comments that address the areas of disagreement.
D. Request arbitration from the audit committee to resolve discrepancies prior to issuing the final report

Answer: C

Question: 18

Which of the following activities should the chief audit executive perform to ensure compliance with an organization's code of conduct?

A. Act as an advisor to the committee responsible for reviewing violations of the code.
B. Review and adjudicate all violations of the code of conduct.
C. Lead the committee responsible for the oversight of the code.
D. Implement a system of procedures to inform all employees of the code.

Answer: A

Question: 19

Which of the following best demonstrates the authority of the internal audit activity?

A. Suggesting alternatives to decision makers.
B. Improving the integrity of information.
C. Determining the scope of internal audit services
D. Achieving engagement objectives.

Answer: C

Question: 20

Which of the following would the chief audit executive be required to disclose in the communication of quality assessment results to senior management and the board?

A. The cost and frequency of both internal and external assessments.
B. Any assumptions made by the assessment team
C. A potential conflict of interest of the assessment team.
D. The assessment team’s execution plan of relevant procedures.

Answer: C

Question: 21

An internal auditor is finalizing an audit report on the effectiveness of the organization's overall system of internal control. Several audit tests were performed, and the only issue identified was that the CEO frequently asks employees to make exceptions or bypass the organization's standard written policies and procedures. Which of the following conclusions is most appropriate for the auditor to report?

A. The auditor should indicate that the system of internal control is not effective.
B. The auditor should indicate that the system of internal control is generally effective, except for the minor issue identified.
C. The auditor should indicate that the system of internal control is effective.
D. The auditor cannot express a conclusive opinion in the audit report.

Answer: A

Question: 22

In addition to her internal audit activity responsibilities, the chief audit executive has been asked to oversee the organization's insurance function. Which of the following responses is most appropriate?

A. Welcome the additional responsibility, as it represents an opportunity to gain more information for future audits.
B. Revise the internal audit charter to include oversight of the insurance function, ensuring that all of her responsibilities are properly documented.
C. Report the request to the board and recommend alternate processes to obtain assurance related to insurance activities.
D. Promptly remove the organization's insurance function from the audit universe.

Answer: C

Question: 23

Which of the following actions by an internal auditor would be the most relevant to determine the effectiveness of controls?

A. Participate in a fraud risk-assessment session as an in-house facilitator.
B. Send regular written updates to senior management on new control-related regulations.
C. Lead a seminar on internal controls and provide numerous examples to the audience.
D. Conduct a surprise inventory count at the raw materials warehouse.

Answer: D

Question: 24

Which of the following scenarios best illustrates the Fraud Triangle component known as "perceived opportunity"?

A. Substantial bonuses are awarded if financial targets are met.
B. Duties are not properly segregated.
C. Employees may perceive favoritism and feel overlooked and resentful.
D. Bonuses may not be paid this year.

Answer: B

Question: 25

Which of the following options describes the reason that conformance with The IIA's Code of Ethics is mandatory for internal auditors?

A. Ethical compliance provides the basis for stakeholder confidence in the competence of the internal audit activity and of professional internal auditors.
B. Ethical compliance is necessary for internal auditors and the internal audit activity to accept responsibility for providing g absolute assurance about the organization's risk management.
C. Ethical compliance provides the basis for stakeholder trust and confidence in the validity of the profession of internal auditing and the internal audit activity's findings.
D. The internal audit activity's ethical compliance sets the tone for the ethical compliance by the organization's board, management, and employees.

Answer: C