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Exam Code: IIA-IAP

Exam Name: Internal Audit Practitioner



Exam A

QUESTION 1

An internal auditor discovers that a vendor had submitted invoices and was paid for services not rendered. Which of the following controls is most appropriate to address this type of issue?

- A. The accounts payable clerk should compare the acknowledgment of goods and services to the invoice.
- B. The supervisor should observe the input of invoices into the payment system.
- C. The supervisor should verify that the amount paid agrees with the contracted amount.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2130 - Control: Internal audit must assess whether controls ensure compliance and prevent fraud.

Reasoning:

Option A directly addresses the root cause: payment for unrendered services. Requiring acknowledgment of receipt ensures only valid invoices are paid.

Option B (observing invoice input) ensures data entry accuracy but does not address fraud.

Option C (verifying amounts) ensures correct payments for legitimate invoices but does not prevent unauthorized payments.

Best Practice:

Verifying acknowledgment of services before payment is a preventive control, reducing fraud risk.

QUESTION 2

Which of the following describes an internal auditor's use of external benchmarking?

- A. The auditor calculates the net profit margin for a business segment to analyze the profitability.
- B. The auditor compares return on equity for a beverage company against its competitor to analyze profitability.
- C. The auditor evaluates operating income margin between geographical areas within an organization to analyze its profitability.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Benchmarking:

External benchmarking involves comparing the organization's metrics with those of other entities, typically competitors or industry averages.

Standard 1210 - Proficiency: Internal auditors must have knowledge to evaluate performance against external benchmarks effectively.

Reasoning:

Option B demonstrates external benchmarking by comparing the organization's return on equity with a competitor's performance.

Option A and Option C focus on internal analysis within the organization and do not use external references.

Application in Internal Auditing:

External benchmarking identifies competitive gaps, informs strategic decisions, and supports recommendations for improvement.

QUESTION 3

When is it appropriate for the internal auditor to determine the engagement's scope and objectives?

- A. During the planning of the engagement

- B. During the performance of the engagement
- C. In the final engagement report

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Planning Phase: According to the International Standards for the Professional Practice of Internal Auditing (ISPPA), Standard 2200 (Engagement Planning), the internal auditor must establish the engagement's objectives, scope, and criteria during the planning phase. This ensures that the audit is focused and aligned with organizational objectives and stakeholder expectations.

Performance Phase: During this phase, auditors execute the planned activities, but the scope and objectives are typically fixed unless there are significant changes in circumstances.

Final Engagement Report: The final report documents the outcomes of the audit, not the scope or objectives, which are pre-determined.

IIA Standard 2200: Engagement Planning.

IIA Standard 2210: Engagement Objectives.

IIA Implementation Guides on Engagement Planning emphasize determining the scope and objectives early to provide direction and clarity.

Thus, the correct answer is A. During the planning of the engagement.

QUESTION 4

According to the IIA's Code of Ethics, which of the following best describes the conduct of an internal auditor who demonstrates the principle of competency?

- A. The auditor continually improves her proficiency and the effectiveness and quality of her services
- B. The auditor is prudent in the use and protection of information acquired in the course of her work
- C. The auditor does not accept anything that may impair or be presumed to impair her professional judgment

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Competency Principle: According to the IIA Code of Ethics, internal auditors must apply the knowledge, skills, and experience needed to perform their duties effectively.

Key Characteristics: Continuous improvement in proficiency, quality of services, and effectiveness directly align with the principle of competency.

Other Options:

Option B: Describes the principle of confidentiality, which emphasizes the responsible use and protection of sensitive information.

Option C: Reflects the principle of integrity, which focuses on avoiding conflicts of interest or situations impairing professional judgment.

Thus, the correct answer is A.

QUESTION 5

The chief audit executive scheduled an exit meeting to discuss conclusions and recommendations with management before issuing the final engagement communication. Which of the following describes the primary reason that the exit meeting should be documented?

- A. The Standards require that the internal auditor document exit meetings
- B. The information may be needed if a disagreement about the content arises
- C. The results of the discussion form part of the internal auditor's performance review

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Exit Meetings: The purpose of an exit meeting is to ensure that management understands and agrees (or documents any disagreements) with the audit findings, conclusions, and recommendations. Proper documentation ensures that there is a record of the discussion, which can be referred to later if disputes arise about the content.

Other Options:



Option A: The IIA Standards do not explicitly mandate documenting exit meetings. While it is a best practice, it is not a direct requirement.

Option C: The exit meeting's primary purpose is to clarify findings, not evaluate the auditor's performance.

Thus, the correct answer is B.

QUESTION 6

During which stage of an audit engagement would the engagement supervisor identify the tasks that were already completed and the remaining tasks to be performed?

- A. When allocating resources.
- B. When developing the test approach.
- C. When documenting the work program.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

The engagement supervisor identifies tasks that are completed and remaining tasks during the process of documenting the work program.

Reference to IIA Standards:

According to the IIA's Performance Standards 2200 - Engagement Planning, an internal audit work program should detail the procedures necessary to achieve the engagement's objectives.

Standard 2240 - Engagement Work Program explicitly states that internal auditors must develop and document work programs that achieve the objectives of the engagement.

Key Responsibilities:

Documenting the work program involves listing tasks already performed to avoid redundancy and tasks remaining to ensure coverage of all planned activities.

Supervisors are responsible for overseeing this process and ensuring the work aligns with the overall engagement plan.

Relevance to Audit Practice:

The work program serves as a roadmap for auditors, detailing specific steps to be taken.

Identifying completed and pending tasks ensures proper time management and resource allocation during the engagement.

QUESTION 7

Which of the following is the best audit procedure to determine whether all of a bank's loans are backed by sufficient collateral, properly aged as to current payments, and properly categorized as current or noncurrent?

- A. Use generalized audit software to read the total loan file, age the file by last payment due, and select a statistical sample stratified by the current and aged population. Examine each loan selected for proper collateralization and aging.
- B. Select a block sample of all loans in excess of a specified dollar limit and determine whether they are current and properly categorized. For each loan approved, verify aging and categorization.
- C. Select a discovery sample of all loan applications to determine whether each application contains a statement of collateral.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

IIA Performance Standard 1220.A2: Internal auditors must consider using technology-based audit techniques and other data analysis tools.

Performance Standard 2320 - Analysis and Evaluation: Sufficient and appropriate analysis should be performed to achieve the engagement's objectives.

Best Audit Practice for the Scenario:

Option A involves using generalized audit software (GAS) to extract relevant data from the loan file and stratify it based on specific criteria (e.g., age of loans, collateral backing). This ensures a statistically valid sample.

By examining a stratified sample, the auditor can determine whether each loan is sufficiently collateralized, aged correctly, and categorized properly.

This method provides comprehensive coverage while maintaining efficiency and adhering to best practices.

Why Other Options Are Less Effective:

Option B: A block sample only includes loans over a certain dollar threshold, which introduces a selection bias and overlooks smaller loans, making the sample less representative.

Option C: A discovery sample limited to loan applications focuses on documentation compliance (e.g., collateral statements) but does not address loan aging or categorization.

Practical Implications:

Generalized audit software automates data analysis, reduces manual effort, and increases the reliability of audit conclusions.
By selecting a representative statistical sample stratified by population characteristics, auditors gain insights that are applicable to the entire population.

QUESTION 8

An internal auditor is planning a business continuity audit engagement at a remote manufacturing plant. During planning interviews, the plant manager stated that the local Environmental, Health, and Safety (EHS) Department, which reports to the plant manager, had completed a similar review six months ago. The EHS review did not find any significant weaknesses. How should the internal auditor consider the EHS review results in the current audit engagement planning?

- A. Ignore the EHS review results, as the department is not a reliable source of information due to its lack of objectivity and independence.
- B. Recommend canceling the audit engagement, as it would be a duplication of effort to revisit the same process already reviewed by EHS.
- C. Evaluate the objectivity and competency of the EHS reviewers and their work to determine whether their review results may be relied upon.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 1220 - Due Professional Care: Internal auditors must consider the reliability of other assurance providers.

Standard 2050 - Coordination and Reliance: Internal auditors may rely on the work of other assurance providers if their objectivity, independence, and competency are assessed and deemed adequate.

Why Evaluate EHS Work:

The EHS review results can be useful if the review process was thorough, objective, and performed by competent individuals.

Dismissing their results without evaluation (Option A) could lead to inefficiencies or redundant work.

Canceling the engagement entirely (Option B) ignores the internal audit's responsibility for independent assurance.

Audit Planning Impact:

By leveraging the EHS review where appropriate, the internal auditor can focus resources on other areas not covered or on verifying key findings.

QUESTION 9

Which of the following situations is most likely to require a compliance engagement from the internal audit activity?

- A. An organization must restate its financial statements due to an error in fixed asset valuation.
- B. An organization is preparing to launch an enhanced service for its online customer information system.
- C. An organization is subject to newly imposed industry health and safety regulations.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2130 - Governance: Internal audit must assess compliance with applicable laws, regulations, and industry standards.

Compliance Auditing: These engagements assess whether the organization adheres to specific rules and regulations.

Reasoning:

Option C involves newly imposed health and safety regulations, making compliance auditing critical to ensure the organization avoids penalties or operational disruptions.

Option A pertains to financial reporting, typically addressed in assurance or financial audits.

Option B involves a new service launch, which may require consulting or operational audits but not necessarily compliance-focused.

QUESTION 10

Which of the following statements best describes quality audit workpapers?

- A. They should be relevant and interesting.

- B. They should be electronic and indexed.
- C. They should be understandable and complete.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2330 - Documenting Information: Workpapers must be sufficient, reliable, relevant, and useful to support audit findings and conclusions.

Practice Advisory: Clear and complete documentation enhances understanding and ensures consistency in audit conclusions.

Characteristics of Quality Workpapers:

They should clearly articulate audit procedures, results, and conclusions in a way that another auditor or stakeholder can understand and rely on them.

While electronic and indexed workpapers (Option B) are desirable for organization, they are not defining characteristics of quality.

QUESTION 11

Which of the following would have the most direct impact on management's decision regarding the amount of risk that is considered acceptable?

- A. Risk capacity.
- B. Risk appetite.
- C. Risk perception.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2120 - Risk Management: Internal audit should evaluate the organization's risk appetite and alignment with decision-making processes.

Definitions:

Risk Appetite (Option B): The level of risk an organization is willing to accept in pursuit of its objectives, making it the most direct determinant of acceptable risk levels.

Risk Capacity (Option A): The organization's ability to absorb risk, which is more strategic and long-term.

Risk Perception (Option C): Subjective views of risk, which can influence decisions but do not directly determine acceptable risk.

QUESTION 12

Which of the following best ensures that the internal audit activity is free from undue interference from management?

- A. Audit policies and procedures that are comprehensive and well-documented, in accordance with the Standards.
- B. A board audit committee that is composed of competent, independent members.
- C. An audit charter that defines the chief audit executive's functional reporting relationship with the board.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 1110 - Organizational Independence: The chief audit executive (CAE) must report functionally to the board to ensure independence.

The audit charter must define the CAE's functional reporting line to the board, securing protection from undue management influence.

Reasoning:

Option C addresses the foundational document---the audit charter---that establishes the CAE's authority and independence.

Option A refers to operational standards, but they do not directly safeguard against interference.



Option B strengthens governance but is secondary to the audit charter in securing independence.

Impact:

A robust audit charter formalizes the CAE's reporting relationship and ensures organizational independence, empowering internal audit.

QUESTION 13

Which of the following describes how the internal audit activity can add the greatest value by assisting management with internal controls?

- A. Internal auditors should assist in designing strong controls.
- B. Internal auditors should monitor how internal controls are functioning.
- C. Internal auditors should evaluate the effectiveness and efficiency of internal controls.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2130 - Control: Internal audit must evaluate and contribute to the improvement of governance, risk management, and control processes.

Designing or operating controls (Options A and B) risks impairing internal audit independence (Standard 1100).

Reasoning:

Option C aligns with internal audit's role of evaluating internal controls objectively.

Option A could involve a management function, which compromises independence.

Option B focuses on monitoring, a management responsibility, and does not leverage internal audit's evaluative expertise.

Best Practice:

By evaluating controls, internal auditors provide actionable insights that help improve control effectiveness and efficiency without compromising independence.

QUESTION 14

Which of the following is most likely to be considered an internal audit assurance service?

- A. Process design engagement.
- B. Facilitation engagement.
- C. Compliance engagement.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Definition of Assurance Services: Assurance services involve the objective examination of evidence to provide an independent assessment of governance, risk management, and control processes.

Compliance engagements align with assurance services by verifying adherence to laws, regulations, or internal policies.

Reasoning:

Option C qualifies as assurance because it involves assessing whether compliance requirements are met.

Option A (process design) and Option B (facilitation) are advisory in nature and fall under consulting services, not assurance.

Impact on the Organization:

Compliance assurance engagements provide critical oversight, helping organizations maintain accountability and avoid regulatory penalties.

QUESTION 15

What is the purpose of establishing engagement objectives during the planning phase of an internal audit?

- A. To ensure that audit procedures are designed to address the risks relevant to the area being audited.

- B. To ensure that all auditors have a common understanding of the area being audited.
- C. To ensure that the work performed by other internal or external assurance providers is considered during audit planning.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2210 - Engagement Objectives: Internal auditors must establish objectives for each engagement to align with the organization's goals and address identified risks.

Reasoning:

Option A is correct because engagement objectives focus on ensuring audit procedures target and mitigate identified risks effectively.

Option B (common understanding) is important for team alignment but is secondary to risk-focused objectives.

Option C (considering work of other assurance providers) is part of planning but not the primary purpose of setting objectives.

Importance of Objectives:

Engagement objectives drive the audit's focus, ensuring that procedures are purposeful and tailored to mitigate relevant risks.

QUESTION 16

A newly hired internal auditor has been asked to examine the sales of a specific product over the last four years. Which of the following analytical review techniques should the auditor employ?

- A. Ratio analysis.
- B. Trend analysis.
- C. External benchmarking.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Analytical Techniques:

Trend Analysis involves examining data over a period to identify patterns, shifts, or anomalies.

This technique is appropriate for longitudinal data like sales over four years.

Reasoning:

Option B (Trend analysis) is correct as it helps the auditor analyze sales performance over time and identify patterns or deviations.

Option A (Ratio analysis) compares related metrics, such as profitability or liquidity, but does not focus on changes over time.

Option C (External benchmarking) involves comparing performance to external standards or competitors, not internal historical data.

Application in Audit:

Trend analysis allows the auditor to assess growth, seasonal patterns, or irregularities in sales data, providing actionable insights.

QUESTION 17

Which of the following is an element of a well-formed audit recommendation?

- A. Factual evidence identified during the engagement.
- B. Measures to prevent recurrence of the condition.
- C. Factors that allowed the condition to exist.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Audit Recommendations:



According to the IIA Standards, a recommendation must be actionable, specific, and designed to address the root cause of an identified issue.

Reasoning:

Option B is correct because effective recommendations focus on preventing recurrence by addressing root causes or implementing control measures.

Option A (factual evidence) supports findings but does not constitute the recommendation itself.

Option C (factors allowing the condition) provides context for findings but does not include actionable measures to resolve or prevent the issue.

Key Components of a Recommendation:

Recommendations should propose practical solutions to mitigate risks, improve processes, or enhance controls.

Measures to prevent recurrence align with the goal of sustainable improvements.

QUESTION 18

Which of the following best describes a compliance audit engagement?

- A. The auditor reviews controls of the oil shale mining process to assess adherence to safety regulations established by local authorities.
- B. The auditor analyzes the economic activity of the organization as measured and reported using international accounting standards.
- C. The auditor conducts a review to provide assurance that the external service provider of maintenance for the organization has an effective risk management process.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Compliance Auditing:

Definition: Compliance audits assess adherence to external laws, regulations, or internal policies and procedures.

Standard 2130 - Control: Internal audit must evaluate the adequacy and effectiveness of controls to ensure compliance with applicable laws and regulations.

Reasoning:

Option A is correct because assessing adherence to safety regulations is a compliance activity focused on legal and regulatory conformity.

Option B (analyzing economic activity) relates more to financial auditing or accounting standards compliance, not regulatory compliance.

Option C (reviewing an external service provider's risk management process) aligns with a risk or assurance engagement, not compliance.

Impact of Compliance Audits:

Ensuring adherence to legal requirements protects the organization from regulatory penalties and enhances operational integrity.

QUESTION 19

Which of the following is a purpose of an embedded audit module?

- A. It enables continuous monitoring of transaction processing.
- B. It identifies program code that may have been inserted for unauthorized purposes.
- C. It verifies the correctness of account balances on a master file.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Embedded Audit Modules:

Definition: Embedded audit modules are software components integrated into systems to monitor transactions in real-time or at regular intervals.

They support continuous auditing by flagging anomalies or predefined conditions.

Reasoning:

Option A is correct because embedded audit modules facilitate continuous monitoring by evaluating transactions as they occur.

Option B relates to detecting unauthorized program code, a task better suited to software integrity checks or penetration testing.

Option C (verifying account balances) is a manual or batch review task unrelated to embedded audit modules.

Benefits of Embedded Audit Modules:

Real-time insights into compliance, fraud detection, and operational inefficiencies.
Enhance audit efficiency and effectiveness in high-transaction environments.

QUESTION 20

Which of the following best describes the purpose of a detailed engagement risk assessment?

- A. To ensure that all risks identified during the engagement planning process are addressed during the audit.
- B. To prioritize risks to the activity's objectives, according to the likelihood of occurrence.
- C. To consider significant risks to the activity's objectives and the means by which the potential impact of risk is kept to an acceptable level.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Engagement Risk Assessment:

Definition: Engagement risk assessment evaluates specific risks relevant to the engagement and identifies controls or mitigations.

Standard 2210.A1: Internal auditors must consider significant risks to objectives, focusing on their likelihood and impact.

Reasoning:

Option C is correct because it aligns with assessing significant risks and ensuring they are mitigated to acceptable levels.

Option A (ensuring all risks are addressed) is impractical since auditors prioritize significant risks within resource constraints.

Option B focuses on prioritizing risks but does not encompass the broader purpose of addressing their impact or mitigation.

Importance of Risk Assessment:

It ensures that the audit focuses on high-impact risks, aligning resources with the organization's risk management framework.

QUESTION 21

Duties in a purchasing system are segregated and performed by different people. One person orders the goods, another person receives the goods, and another pays for the goods. This is an example of which of the following controls?

- A. Preventive
- B. Directive
- C. Detective

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Internal Controls:

Preventive controls are designed to prevent errors, fraud, or irregularities before they occur by ensuring that processes and activities are performed correctly from the start.

Standard 2130 - Control: Internal auditors assess the design and effectiveness of controls to prevent risks from materializing.

Reasoning:

Option A is correct because segregation of duties (ordering, receiving, and paying) is a preventive control, as it prevents a single person from having the authority to initiate, authorize, and complete a transaction, reducing the risk of fraud or errors.

Option B (Directive) would focus on guiding behavior, such as setting policies or expectations.

Option C (Detective) refers to controls that identify and detect errors after they occur, such as audits or reviews.

Impact of Segregation of Duties:

By ensuring duties are segregated, organizations minimize the risk of fraudulent activities and errors, thus acting as a preventive measure.

QUESTION 22

Which of the following activities would compromise the independence of the internal audit activity and therefore should not be performed by an internal auditor?

- A. Championing the establishment of organization-wide risk management.
- B. Setting the organization's risk appetite.
- C. Coordinating risk management activities.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 1110 - Organizational Independence: Internal audit must be independent of the activities it audits to maintain objectivity.

Standard 1130 - Impairment to Independence or Objectivity: Internal audit's independence is compromised if auditors take on roles that involve making decisions or implementing controls, as this may bias their findings.

Reasoning:

Option B is correct because setting the organization's risk appetite is a management decision and represents a strategic role that compromises the internal audit's independence.

Option A (championing the establishment of risk management) and Option C (coordinating risk management) do not directly impair independence, though care should be taken to avoid direct involvement in risk management decisions. These activities can be part of advisory services and not necessarily a threat to independence if appropriately managed.

Maintaining Independence:

Internal auditors should provide assurance on risk management but not take on roles that involve decision-making or implementing risk management processes.

QUESTION 23

What is the primary objective for testing controls?

- A. To determine whether controls are operating effectively.
- B. To understand whether a control is in place.
- C. To identify major patterns of errors or irregularities that might exist in final account balances.



Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2130 - Control: Internal auditors must assess whether internal controls are designed and operating effectively to mitigate identified risks.

Standard 2200 - Engagement Planning: The objective of testing controls is to evaluate their effectiveness in achieving the desired outcomes.

Reasoning:

Option A is correct because the main goal of testing controls is to determine whether they are functioning effectively to manage the identified risks and achieve control objectives.

Option B (understanding whether a control is in place) focuses on control design but not its operational effectiveness.

Option C (identifying patterns of errors) is related to detecting irregularities, not directly testing the control's effectiveness.

Effectiveness of Controls:

Internal audit testing focuses on evaluating the effectiveness and operational efficiency of controls to ensure they reduce risks to an acceptable level.

QUESTION 24

The engagement supervisor is coordinating an audit of investments and needs to select an audit team member to determine the test attributes. Which of the following team members is most appropriate for the engagement supervisor to select?

- A. An auditor who transferred from the investment department six months prior and has expert knowledge of investments.
- B. An auditor with strong leadership skills who has experience leading projects for the IT audit department.
- C. An auditor who has investment audit experience from a previous organization, but who has never performed investment audits at the current organization.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 1210 - Proficiency: Internal auditors must possess the necessary knowledge, skills, and competencies to conduct audits effectively.

The auditor should have the relevant expertise to evaluate investment-related test attributes.

Reasoning:

Option A is correct because the auditor has direct knowledge and expertise in investments, making them the most qualified to determine the relevant test attributes for the audit.

Option B (IT audit experience) does not align with the specific skills required for investment auditing.

Option C (previous experience) may offer some advantage, but the lack of familiarity with the current organization's processes limits the auditor's effectiveness.

Importance of Expertise:

Selecting an auditor with relevant experience and proficiency ensures that the audit will be conducted with accuracy and that the proper test attributes will be identified.

QUESTION 25

Which of the following would an internal auditor most likely use to document a complex process that includes risks and controls, timelines, and ownership of key steps?

- A. Process map.
- B. Detailed flowchart.
- C. Risk and control matrix.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2330 - Documenting Information: Internal auditors are required to document audit evidence and processes in a way that is clear, complete, and supports audit conclusions.

Risk and control matrices are effective for documenting risks, controls, and related responsibilities in a structured way.

Reasoning:

Option C is correct because a risk and control matrix clearly documents processes, the associated risks, control activities, and ownership of each step. It is the most suitable tool for understanding risks and controls along with associated timelines and responsibilities.

Option A (process map) documents the steps in a process but does not directly link risks and controls.

Option B (detailed flowchart) is used to map the flow of a process but also lacks the structure for detailing risks and control ownership.

Best Practice for Documentation:

A risk and control matrix is the most structured and comprehensive tool for documenting complex processes that involve risks, controls, and ownership.

QUESTION 26

Which of the following is the most important initial action for a chief audit executive to perform when establishing a new internal audit activity?

- A. Establish an internal audit charter.
- B. Establish a code of ethics for the internal audit activity.
- C. Approve the internal audit budget.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 1000 - Purpose, Authority, and Responsibility: The internal audit charter must define the purpose, authority, and responsibility of the internal audit activity and establish its position within the organization.

The charter is foundational to the independence, authority, and effectiveness of the internal audit activity.

Reasoning:

Option A is correct because the charter formalizes the internal audit activity's role and ensures alignment with organizational governance. Without a charter, the internal audit function cannot operate effectively or independently.

Option B (establishing a code of ethics) is important but is part of overall compliance with IIA Standard 1300 - Quality Assurance and Improvement Program and is not the first step.

Option C (approving the budget) is administrative and secondary to establishing the internal audit charter.

Importance of the Audit Charter:

The charter provides the internal audit activity with the mandate to perform its duties, ensuring accountability and defining its scope and authority.

QUESTION 27

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.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2420 - Quality of Communications: Audit communications must be accurate, objective, clear, concise, constructive, complete, and timely.

A fair and balanced assessment ensures objectivity and builds credibility.

Reasoning:

Option B is correct because fair and balanced reporting reflects both positive and negative findings, maintaining the credibility and usefulness of the audit report.

Option A (including as much detail as possible) risks overwhelming the audience and detracting from key messages.

Option C (using technical language) can reduce clarity and accessibility for non-technical stakeholders.

Importance of Balanced Reporting:

Objective and balanced communications ensure that the audit report is actionable and supports informed decision-making by management and the board.

QUESTION 28

An internal auditor is performing an internal control assessment at a manufacturing company. The auditor observed that the accounts payable clerks have the ability to create new vendors without management's review and approval. How should the auditor document this observation?

- A. The observation doesn't affect the adequacy of the internal controls because the existing process controls ensure that invoices are promptly and accurately paid.
- B. The observation is an internal control weakness; therefore, additional testing should be performed to determine whether secondary mitigating controls exist or whether the control should be redesigned.
- C. The observation is a sign of adequate internal controls; however, effectiveness testing should be performed to ensure that the controls are operating as designed and intended.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to Internal Control Assessment:

Standard 2130 - Control: Internal auditors must evaluate the adequacy and effectiveness of controls in mitigating risks.

COSO Framework: Proper segregation of duties is essential for preventing unauthorized transactions and fraud.

Reasoning:

Option B is correct because the lack of management review and approval for creating vendors indicates a control weakness, as it creates opportunities for unauthorized vendors or fraud. The auditor should investigate whether mitigating controls exist (e.g., periodic review of vendor lists) or recommend redesigning the process to include managerial oversight.

Option A dismisses the observation without considering its impact on control adequacy. Prompt payment alone does not address risks related to unauthorized vendors.

Option C incorrectly assumes the observation reflects adequate controls, which is not the case given the lack of management approval.

Actionable Next Steps:

Document the observation as a control deficiency.

Perform additional testing to identify whether compensating controls mitigate the risk or recommend enhancements to strengthen controls.

QUESTION 29

Which of the following best describes an audit engagement in which the objective is to appraise the economy of an oil shale mining process and the degree to which yearly production targets are being achieved?

- A. Due diligence
- B. Business process improvement
- C. Operational

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Operational Audit: This type of audit focuses on evaluating the efficiency, effectiveness, and economy of operations, such as the mining process and production targets in this case.

Other Options:

Option A: Due diligence typically relates to evaluating financial or operational risks in transactions, such as mergers or acquisitions.

Option B: Business process improvement aims to enhance workflows but is not the primary objective of this audit.

Thus, the correct answer is C. Operational.

QUESTION 30

According to IIA guidance, which of the following is the primary criterion that should determine the extent of supervision required for an audit engagement?

- A. The number of hours approved by the board for that engagement.
- B. The proficiency of the internal auditors and the complexity of the engagement.
- C. Whether the engagement involves possible violations of laws and governmental regulations.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Extent of Supervision: The level of supervision required is determined by the auditors' proficiency (experience and skill set) and the complexity of the engagement. This ensures the work is executed effectively while maintaining compliance with IIA standards.

Other Options:

Option A: The number of hours approved is not a primary factor; it is more relevant to resource planning.

Option C: While regulatory violations may require heightened attention, they do not solely dictate supervision levels.

Thus, the correct answer is B.

QUESTION 31

An internal auditor was assigned to a payroll process audit engagement. At which stage of engagement planning would the auditor conduct a risk assessment?

- A. After allocating resources.
- B. After determining audit engagement objectives.
- C. After documenting the process.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Risk Assessment in Planning: Conducting a risk assessment typically follows documentation of the process, as understanding the process provides the necessary context for identifying and evaluating risks.

Other Options:

Option A: Resource allocation happens after risk assessment determines the scope and focus of the engagement.

Option B: Determining objectives usually occurs after assessing risks.

Thus, the correct answer is C.

QUESTION 32

What is the primary purpose of a preliminary survey?

- A. To develop a risk and control matrix for the process under review.
- B. To gain an understanding of the process under review.
- C. To determine why the engagement is being performed.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Preliminary Survey Purpose: The survey is conducted to gather sufficient information to understand the process, environment, and related risks. This understanding serves as a foundation for planning the engagement.

Other Options:

Option A: Developing a risk and control matrix is a subsequent step after understanding the process.

Option C: Determining the purpose of the engagement is established before conducting the survey.

Thus, the correct answer is B.

QUESTION 33

Which of the following is considered an organization-level control, as opposed to process-level or transaction-level?

- A. Personnel policies requiring the employment of competent personnel, based on training and experience, to manage complex functions such as accounting and financial reporting.
- B. Supervision of finance employees, including day-to-day oversight and periodic performance evaluations.
- C. Segregated budgeting responsibilities of finance employees, including review and approval of financial reports.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Organization-Level Controls: These controls address risks at the entity-wide level, such as governance, tone at the top, and policies affecting multiple processes. Personnel policies requiring qualified employees are an organization-level control as they apply broadly across the organization.

Other Options:

Option B: Supervision is a process-level control, as it directly relates to overseeing specific activities within a department.

Option C: Segregated budgeting responsibilities are a transaction-level control, focused on specific tasks within a process.

Thus, the correct answer is A.

QUESTION 34

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.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Open Discussions of Risks and Opportunities: The best indicator of effective risk management is a culture where management actively identifies, evaluates, and discusses risks and opportunities, integrating them into decision-making processes.

Other Options:

Option B: Policies and procedures are a baseline requirement but do not alone indicate effectiveness.

Option C: Implementing risk management processes is important but does not confirm their operational effectiveness.

Thus, the correct answer is A.

QUESTION 35

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.

Correct Answer: A

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 1210 - Proficiency: Internal auditors must possess the knowledge, skills, and competencies needed to perform their responsibilities.

Continuous professional development ensures the internal audit team maintains proficiency.

Reasoning:

Option A is correct because training enhances the skills and proficiency of the internal audit team, aligning with the requirement to maintain technical and professional competence.

Option B (organizational status for independence) relates to governance and reporting relationships, not training.

Option C (assessing development efforts) is a secondary benefit and not the primary goal of providing training.

Impact of Training:

A well-trained audit team improves the quality of engagements, ensures adherence to professional standards, and supports the overall effectiveness of the internal audit activity.

QUESTION 36

An internal auditor is reporting on the organization's asset management system. Which of the following would likely add the greatest value to the organization?

- A. Confirmation that controls are operating efficiently.
- B. Recommendations aimed at reducing risk exposure.
- C. Reports that state identified deficiencies were remedied during the audit.

Correct Answer: B

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2410 - Criteria for Communicating: Internal audit reports must provide relevant and constructive information, including recommendations for improvement.

Recommendations focused on reducing risk exposure align with the purpose of internal auditing: improving governance, risk management, and controls.



Reasoning:

Option B is correct because providing recommendations aimed at reducing risk exposure directly addresses the organization's strategic and operational vulnerabilities, adding significant value.

Option A (confirmation of efficient controls) ensures reliability but does not proactively improve risk management or processes.

Option C (deficiencies remedied during the audit) is informative but lacks the forward-looking impact of targeted recommendations.

Adding Value through Recommendations:

Internal audit recommendations guide management in addressing critical risks, improving operational efficiency, and enhancing organizational resilience.

QUESTION 37

During engagement planning, which of the following would provide an internal auditor with a sufficient understanding of the process being audited?

- A. The mission, vision, and strategic objectives of the organization.
- B. Management's opinion on the thoroughness of a previous internal audit of the same process.
- C. The objectives and risk management of the process.

Correct Answer: C

Section:

Explanation:

Comprehensive and Detailed Step-by-Step Explanation:

Reference to IIA Standards:

Standard 2200 - Engagement Planning: Internal auditors must develop a plan that considers the objectives, risks, and controls of the area being audited.

Standard 2210 - Engagement Objectives: The objectives of the engagement must be aligned with the organization's processes and risk management practices.

Reasoning:

Option C is correct because understanding the process's objectives and associated risks allows the auditor to design procedures to assess how well risks are managed and objectives are achieved.

Option A (mission, vision, and strategic objectives) provides organizational context but does not give detailed insights into the specific process.

Option B (management's opinion) is subjective and insufficient for developing a comprehensive understanding of the process.

Effective Engagement Planning:

Focus on process-specific objectives, risks, and controls ensures a targeted and effective audit, contributing to meaningful outcomes.