



# IIA CRMA Exam Questions

**Total Questions: 250+**

**Demo Questions: 35**

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# 1: Internal Audit Roles and Responsibilities

## Question: 1

Which of the following is a valid statement about the use of visual observations during an audit engagement? 1. Visual observations can be used to detect ineffective controls, idle resources, and safety hazards. 2. Visual observations can be used during both preliminary survey and fieldwork stages of the audit engagement. 3. Visual observations can provide unsubstantiated facts to management if the internal auditor believes the information is useful. 4. Visual observations can assist an auditor in determining if a material observation should be communicated through informal means to the organization's senior management.

- A. 1 and 2 only
- B. 1 and 4 only
- C. 2 and 3 only
- D. 3 and 4 only

## Answer:

A

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## Explanation:

Visual observation is a fundamental audit technique used to gather physical evidence. It is highly effective for assessing the state of tangible assets, observing processes, and evaluating human behavior. Auditors can directly witness control activities (or their absence), identify underutilized or idle resources, and spot obvious safety violations. This technique is versatile and applied throughout the audit lifecycle. During the preliminary survey (planning phase), auditors perform walkthroughs to understand processes. During fieldwork, they conduct detailed observations to test the design and operating effectiveness of controls. Therefore, statements 1 and 2 are both valid descriptions of the use of visual observations in an audit.

## Why Incorrect Options are Wrong:

3. Visual observations can provide unsubstantiated facts to management if the internal auditor believes the information is useful.

This is incorrect. All audit communications must be based on sufficient, reliable, and corroborated evidence. Reporting "unsubstantiated facts" violates professional standards for accuracy and objectivity.

4. Visual observations can assist an auditor in determining if a material observation should be communicated through informal means to the organization's senior management.

This is incorrect. Material observations, due to their significance, require formal communication to

senior management and the board to ensure they receive appropriate attention and are formally tracked to resolution.

## References:

1. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF)

Standard 2310: Identifying Information.

The Implementation Guide for Standard 2310 states

"Physical information is obtained through observation of people  
property

and events... For example

observing the condition of inventory is a form of physical information." This supports the use of observation to detect issues like idle resources or safety hazards (Statement 1).

2. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF)

Standard 2200: Engagement Planning & Standard 2300: Performing the Engagement.

The guidance for these standards clarifies that information gathering occurs in multiple phases.

Implementation Guide 2210 discusses conducting a "preliminary survey" to understand the area which often involves observation. The 2300 series covers fieldwork where detailed testing including observation

occurs. This supports the validity of using observation in both stages (Statement 2).

3. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF)

Standard 2410: Criteria for Communicating.

This standard requires that "Communications must be accurate  
objective

clear

concise

constructive

complete

and timely." Reporting unsubstantiated information

as suggested in statement 3

would directly violate the principles of accuracy and objectivity.

4. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF)

Standard 2600: Communicating the Acceptance of Risks.

This standard mandates a formal communication process with senior management and the board for significant risk issues (i.e.

material observations). Communicating such matters informally

as suggested in statement 4

would be an inappropriate abdication of the internal audit activity's responsibility.

## Question: 2

An internal auditor for a large retail chain suspects that a store manager has been stealing money from cash sales by listing the sales as accounts receivable and then writing off the accounts as bad debts. Which of the following irregularities is the most likely cause of the auditor's suspicion?

- A. A much higher bad debt expense as a percentage of sales than that of previous years.
- B. A much higher bad debt expense as a percentage of sales than that of other stores.
- C. A much higher percentage of past-due accounts receivable than that of other stores.
- D. A much higher percentage of past-due accounts receivable than that of previous years.

### Answer:

B

### Explanation:

The described fraud scheme involves a store manager stealing cash and concealing the theft by creating a fictitious accounts receivable, which is later written off. This action directly and artificially inflates the bad debt expense for that specific store. Comparing the suspect store's bad debt expense as a percentage of sales against other stores in the chain is the most effective analytical procedure. This cross-sectional analysis provides a relevant benchmark, highlighting outliers and isolating problems specific to one location, which is characteristic of a single manager's fraud. It effectively controls for broader economic or company-wide factors that might affect all stores.

### Why Incorrect Options are Wrong:

- A. A much higher bad debt expense as a percentage of sales than that of previous years.  
This temporal analysis is less reliable. The fraud may have been ongoing, or overall economic conditions could have changed, making a year-over-year comparison less conclusive than a peer comparison.
- C. A much higher percentage of past-due accounts receivable than that of other stores.  
While past-due accounts would rise temporarily before the write-off, the bad debt expense is the final, direct financial impact of the scheme, making it a more definitive and primary indicator of this fraud.
- D. A much higher percentage of past-due accounts receivable than that of previous years.  
This option combines the weaknesses of temporal analysis (comparing to previous years) with a less direct indicator (past-due accounts vs. the actual write-off expense), making it the least effective choice.

## References:

1. COSO. (2016). Fraud Risk Management Guide. In the section on "Fraud Risk Assessment" (Principle 4)

the guide discusses data analytics for fraud detection. It states

"Management uses data analysis to look for anomalies and trends that may indicate fraud...

comparing data against a variety of sources

such as... peer or industry performance." (p. 59). This supports comparing one store's metrics against its peers.

2. Wells

J. T. (2017). Corporate Fraud Handbook: Prevention and Detection (5th ed.). In Chapter 4 "Skimming

" Wells discusses how analytical procedures can detect revenue-related fraud. He notes that comparing key ratios (like bad debt expense to sales) among different locations or units is a primary detection method. A significant variance in one location compared to others warrants investigation.

3. The Institute of Internal Auditors (IIA). (2017). International Professional Practices Framework (IPPF). Standard 2120.A2 requires internal auditors to evaluate fraud potential. The supporting implementation guidance emphasizes using analytical procedures to identify anomalies.

Comparing performance metrics across similar operating units is a fundamental analytical procedure for this purpose. For example

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a significant deviation in bad debt expense at one store versus the chain's average is a classic red flag.

## Question: 3

Which of the following would provide the best guidance to a chief audit executive who is setting internal audit staff requirements?

- A. A review of audit staff education and training records.
- B. Information about the audit staff size and composition of comparable organizations.
- C. Results from discussions of audit needs with executive management and the audit committee.
- D. The results of the audit staff's most recent performance reviews.

**Answer:**

C

**Explanation:**

The Chief Audit Executive (CAE) must align the internal audit activity's resources with the organization's strategic objectives and key risks. The most direct and effective way to understand these priorities is through discussions with executive management and the audit committee. These stakeholders provide critical input on risk appetite, emerging risks, and areas of concern, which forms the basis for the risk-based audit plan. The staffing requirements-including the necessary number of auditors, their skills, and experience levels-are then derived from the resources needed to execute this approved plan effectively. This approach ensures the internal audit function is strategically aligned and provides value to the organization.

**Why Incorrect Options are Wrong:**

- A. A review of audit staff education and training records. This assesses the capabilities of the current staff but does not define the overall staffing requirements needed to address organizational risks and stakeholder expectations.
- B. Information about the audit staff size and composition of comparable organizations. Benchmarking can be a useful data point, but it is not the best primary guidance as it fails to consider the unique risk profile and strategic goals of the specific organization.
- D. The results of the audit staff's most recent performance reviews. This information is used for managing individual performance and development, not for determining the overall resource and skill requirements for the entire internal audit function.

**References:**

- 1. The Institute of Internal Auditors (IIA)  
International Professional Practices Framework (IPPF)  
Standard 2010 - Planning: "The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity consistent with the organization's goals."

## Implementation Guide 2010

Paragraph 1: "The CAE discusses the organization's strategies

key business objectives

and associated risks with senior management and the board to help ensure that the internal audit plan is aligned with the organization's objectives." This directly supports that discussions with management and the board are foundational.

## 2. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF)

Standard 2030 - Resource Management: "The chief audit executive must ensure that internal audit resources are appropriate sufficient

and effectively deployed to achieve the approved plan."

## Implementation Guide 2030

Paragraph 1: "The CAE considers several factors to determine the resources needed to perform the engagement plan... These factors include... the expectations of senior management and the board." This explicitly links resource requirements to stakeholder expectations.

## 3. Sawyer

L. B.

Dittenhofer

M. A.

& Scheiner

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J. H. (2003). Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (5th ed.). The Institute of Internal Auditors Research Foundation.

## Chapter 25

"Managing the Internal Auditing Activity": This chapter emphasizes that the CAE's primary responsibility in resource management is to align the audit function's capabilities with the audit plan

which is itself a product of consultation with the audit committee and senior management regarding organizational risks and objectives.

## Question: 4

An organization's chief audit executive (CAE) determines that the internal audit staff does not have the requisite skills to conduct an audit of the financial derivatives area. Which of the following would be the best course of action for the CAE to follow?

- A. Outsource the audit engagement to a qualified external auditing firm without burdening the audit committee with the decision.
- B. Determine the requisite knowledge needed, and obtain the proper training for auditors, even if the training will significantly push back the project's timeframe as outlined by the audit committee.
- C. Notify the audit committee of the problem, and assign the most competent auditors on staff to perform the audit engagement.
- D. Employ the skills of a financial derivatives expert to consult on the project, and supplement the consulting with a local seminar on financial derivatives.

### Answer:

D

### Explanation:

This approach is the most comprehensive and compliant with professional standards. It addresses the immediate competency gap for the high-risk financial derivatives audit by engaging an external expert, thereby ensuring the engagement is conducted with the required proficiency as mandated by IIA Standard 1210.A1. Simultaneously, it addresses the long-term development of the internal audit staff through supplementary training. This dual strategy represents effective resource management by solving the current problem while building internal capabilities for the future, ensuring the internal audit activity can fulfill its responsibilities effectively.

### Why Incorrect Options are Wrong:

- A. Outsourcing without informing the audit committee is inappropriate. The CAE has a responsibility to communicate significant issues, including resource limitations and sourcing decisions, to senior management and the board/audit committee.
- B. Delaying a critical audit significantly is not a prudent course of action, as it leaves a potentially high-risk area unexamined. The immediate need for assurance is not met by a long-term training plan alone.
- C. Assigning auditors who are known to lack the requisite skills violates the fundamental IIA Standard 1210 on Proficiency. The "most competent" among an unqualified team is still not competent for the specific engagement.

## References:

1. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing (Standards).  
Standard 1210: Proficiency: "The internal audit activity must collectively possess or obtain the knowledge  
skills  
and other competencies needed to perform its responsibilities."  
Standard 1210.A1: "The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge  
skills  
or other competencies needed to perform all or part of the engagement." This standard directly supports the action of employing an expert consultant.  
Standard 2060: Reporting to Senior Management and the Board: This standard requires the CAE to report on resource limitations  
which contradicts the approach in option A.
2. The Institute of Internal Auditors (IIA). (2017). Practice Guide: Sourcing the Internal Audit Function.  
Section: Co-sourcing  
Page 10: The guide explains that co-sourcing is a common strategy to "fill gaps in skill sets" for specialized areas. It states  
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"Co-sourcing is often used to address skill gaps in specialized or technical areas (e.g.  
derivatives  
treasury  
and certain IT areas)." This directly validates using an expert for a financial derivatives audit.
3. Anderson  
U. L.  
Head  
M. J.  
Ramamoorti  
S.  
Riddle  
C.  
& Salamasick  
M. (2017). Internal Auditing: Assurance & Advisory Services (4th ed.). The Institute of Internal Auditors Research Foundation.  
Chapter 17  
"Managing the Internal Audit Activity  
" Page 17-11: The text discusses staffing and resource management  
stating

"When the internal audit function lacks specific expertise for a particular engagement it may be necessary to use external resources... This is a common practice for audits of highly technical areas such as derivatives..." This academic source confirms that engaging experts for specialized audits is a best practice.

## Question: 5

After being terminated due to downsizing, an internal auditor finds a different job with an organization in the same industry. Which of the following actions would violate the IIA Code of Ethics?

- A. To determine audit priorities in the new job, the auditor uses the audit risk approach that the auditor's previous employer used, without receiving permission to do so.
- B. At the new organization, the auditor is asked to develop forms to implement probability-proportional-to-size sampling. Although unsure of how to perform this type of sampling, the auditor proceeds without asking for assistance.
- C. In preparing for an audit at the previous organization, the auditor had conducted a great deal of research on the Internet at home to identify best practices for the management of a treasury function. The auditor has retained much of the research and uses it to conduct an audit of the new employer's treasury function.
- D. In the first week at the new organization, the auditor discovers a high fraud risk surrounding the organization's database and suggests that the information technology department implement a new password system to prevent fraudulent actions before they occur.

### Answer:

B

### Explanation:

This action is a direct violation of the Competency principle of the IIA Code of Ethics. Rule of Conduct 2.1 states, "Internal auditors shall engage only in those services for which they have the necessary knowledge, skills, and experience." By proceeding with a complex sampling method without understanding it or seeking assistance, the auditor is not performing services competently. This also violates Standard 1210: Proficiency, which requires auditors to possess the necessary knowledge and skills. Failing to seek help when lacking competence constitutes a failure to exercise due professional care, potentially leading to flawed audit conclusions and damaging the credibility of the internal audit function.

### Why Incorrect Options are Wrong:

- A. An audit risk approach is a general methodology, not proprietary information. Using professional knowledge and experience gained from a previous employer is not an ethical violation.
- C. Using publicly available research on best practices is an appropriate application of professional knowledge and supports the principle of Competency, rather than violating any ethical rule.

D. Identifying a high fraud risk and recommending a corrective control is a fundamental and value-adding activity for an internal auditor, demonstrating due professional care.

## References:

1. The Institute of Internal Auditors (IIA). (2013). The IIA's Code of Ethics. Principle: Competency Rule of Conduct 2.1. "Internal auditors shall engage only in those services for which they have the necessary knowledge skills and experience."
2. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing (Standards). Standard 1210: Proficiency. "Internal auditors must possess the knowledge skills and other competencies needed to perform their individual responsibilities."
3. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing (Standards). Standard 1210.A1 - Interpretation. "If internal auditors lack the knowledge skills or other competencies needed... the chief audit executive must obtain competent advice and assistance." This implies an individual auditor should also seek assistance when needed.

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## Question: 6

An organization has implemented a new automated payroll system that contains a table of pay rates that are matched to employee job classifications. Which control should an internal auditor suggest in order to ensure that the table is updated correctly, and is used only for valid pay changes?

- A. Restrict data-table access from management and line supervisors who have the authority to determine pay rates.
- B. Require a supervisor in the department, who has the ability to change the table, to compare the changes to a signed management authorization.
- C. Ensure that adequate edit and reasonableness checks are built into the automated system.
- D. Require a manager, who is independent of the system and who cannot change the table, to authorize and sign-off on any employee pay changes.

### Answer:

D

### Explanation:

This option describes the implementation of a critical internal control: segregation of duties (SoD). By requiring an independent manager, who does not have the system permissions to change the pay rate table, to formally authorize any modifications, the organization creates a powerful preventive control. This process ensures that all changes are reviewed for legitimacy and accuracy by an appropriate authority before they are entered into the system by a different individual. This separation of authorization from data modification is a fundamental principle for maintaining the integrity of critical master data, such as a payroll table.

### Why Incorrect Options are Wrong:

- A. Restricting access from authorized managers is counterproductive. Their review and approval are necessary; the key is separating their authorization role from the data entry role.
- B. This option violates segregation of duties. Allowing the person who can change the table to also be the one who verifies the authorization creates a significant risk of unauthorized changes.
- C. Edit and reasonableness checks are valuable for preventing data entry errors but do not verify that a change was properly authorized in the first place.

### References:

1. COSO

Internal Control - Integrated Framework: Principles (May 2013). Principle 10

"Selects and Develops Control Activities

" emphasizes that control activities

such as authorizations and verifications

are essential for mitigating risks. The framework's discussion on this principle explicitly includes segregation of duties as a common and critical type of control activity to prevent fraud and error.

(See Principle 10

Page 81).

## 2. The Institute of Internal Auditors (IIA)

Global Technology Audit Guide (GTAG) 8: Auditing Application Controls

2nd Edition (2012). This guide states that strong controls over master file maintenance are crucial. It specifies that

"Changes to master files should be subject to the same authorization controls as the transactions that are processed against them... Segregation of duties should be enforced between those who can approve changes and those who can process them." (See Section: "Master File Controls" Page 14).

## 3. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF) (2017). Standard 2130.A1 requires internal auditors to evaluate the adequacy and effectiveness of controls. A key control for a payroll system is ensuring proper authorization for changes to pay rates

which is best achieved through segregation of duties as described in the correct answer.

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## Question: 7

Which of the following actions does not violate the IIA Code of Ethics or Standards?

- A. An internal auditor performing an audit on an operation that they managed less than a year ago.
- B. An internal auditor performing an audit on procedures that they were responsible for creating.
- C. An internal auditor disclosing details of an audit report to colleagues from a different organization.
- D. An internal auditor disclosing confidential information in response to a lawsuit.

### Answer:

D

### Explanation:

The IIA Code of Ethics, under the principle of Confidentiality, requires internal auditors to protect information acquired during their duties. However, Rule 3.2 clarifies that auditors shall not use information in any manner contrary to the law. A lawsuit or legal subpoena creates a legal obligation to disclose information. Complying with such a legal requirement is not a violation of the Code of Ethics; in fact, failing to do so would be illegal. Therefore, this action is permissible as it is compelled by law.

### Why Incorrect Options are Wrong:

- A. This action directly violates Standard 1130.A1, which states that objectivity is impaired if an auditor audits an area where they had responsibility within the previous year.
- B. This creates a self-review threat, which impairs objectivity. Standard 1120 requires auditors to have an impartial, unbiased attitude and avoid conflicts of interest.
- C. This violates the Confidentiality principle (Rule 3.1) of the IIA Code of Ethics, which prohibits the disclosure of audit information without appropriate authority.

### References:

1. The Institute of Internal Auditors (IIA). (2017). International Professional Practices Framework (IPPF). The Code of Ethics  
Principle 3: Confidentiality  
Rule 3.2. "Internal auditors... Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization."
2. The Institute of Internal Auditors (IIA). (2017). International Professional Practices Framework (IPPF). The Code of Ethics  
Principle 3: Confidentiality

Rule 3.1. "Internal auditors... Shall be prudent in the use and protection of information acquired in the course of their duties."

3. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing. Standard 1130.A1. "Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year."

4. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing. Standard 1120: Individual Objectivity. "Internal auditors must have an impartial unbiased attitude and avoid any conflict of interest."

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## Question: 8

Why is it important for the chief audit executive to periodically review the audit charter and present the results to senior management and the board?

- A. Because management requires the review to measure effectiveness of the internal audit activity.
- B. So that the individual objectivity of the internal audit staff can be more clearly established.
- C. So that there is assurance of the internal audit staff's proficiency to complete audit activities.
- D. Because changes in the organization may impair the internal audit activity's ability to meet its objectives.

### Answer:

D

### Explanation:

The internal audit charter defines the purpose, authority, and responsibility of the internal audit activity. Organizations are dynamic, and changes in business strategy, structure, risk profile, or the regulatory environment can occur. A periodic review of the charter ensures it remains aligned with the current organizational context. This process confirms that the internal audit activity's scope and authority are still appropriate to effectively address emerging risks and meet its objectives, thereby maintaining its relevance and value to the organization. This review and presentation to senior management and the board reaffirms their support and understanding of internal audit's role.

### Why Incorrect Options are Wrong:

- A. The effectiveness of the internal audit activity is primarily measured through a Quality Assurance and Improvement Program (QAIP), not by the charter review itself.
- B. The charter establishes the organizational independence of the internal audit activity. Individual auditor objectivity is addressed through policies, professional skepticism, and assignment management.
- C. Staff proficiency and due professional care are assured through hiring, training, and supervision, as mandated by the IIA Standards, not directly through the charter review process.

### References:

1. The Institute of Internal Auditors (IIA)  
International Professional Practices Framework (IPPF)  
2017.  
Standard 1000: Purpose  
Authority

and Responsibility: "The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval."

Implementation Guide 1000

Paragraph 2: "The CAE should periodically assess whether the purpose authority

and responsibility

as defined in the charter

continue to be adequate to enable the internal audit activity to accomplish its objectives. The result of this periodic assessment should be communicated to senior management and the board." This guidance implicitly links the review to changes that could affect the accomplishment of objectives.

2. The Institute of Internal Auditors (IIA)

Practice Guide

"Developing the Internal Audit Strategic Plan

" December 2012.

Section: "The Internal Audit Charter

" Page 6: "The CAE should review the charter periodically (at least annually) with senior management and the board to ensure it remains current with the evolving needs of the organization." This directly supports the idea that the review is necessary due to organizational changes.

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## Question: 9

Which of the following actions indicates a lack of due professional care by an internal auditor performing an audit of a store's cash function?

- A. The audit report included a well-supported recommendation for a reduction in staff even though such a reduction might adversely impact morale.
- B. The auditor tested samples of transactions to test the cash function's process flows.
- C. After determining that the cash function internal controls were strong, the audit report assured senior management that fraud was not present.
- D. The auditor discovered an instance of potential fraud and reported it immediately to management, but did not alert authorities outside the organization.

### Answer:

C

### Explanation:

Due professional care requires internal auditors to act as a reasonably prudent and competent auditor would. Providing absolute assurance that fraud is not present, even with strong controls, is a failure of this duty. Internal audit engagements can only provide reasonable assurance. Controls can be circumvented through collusion, management override, or simple human error. Stating definitively that no fraud exists misrepresents the nature and limitations of an audit, potentially giving management a false sense of security and demonstrating a lack of professional judgment and care.

### Why Incorrect Options are Wrong:

- A. Making a well-supported, albeit unpopular, recommendation for operational efficiency is a demonstration of professional care and objectivity, not a lack of it.
- B. Using sampling is a standard and accepted audit technique to test a large population of transactions efficiently and is a core part of exercising due professional care.
- D. The internal auditor's primary responsibility is to report findings, including potential fraud, to appropriate levels within the organization, not to external authorities.

### References:

1. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards) 2017.

Standard 1220: Due Professional Care: "Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility."

Interpretation of Standard 1220: "Exercising due professional care means... An auditor's assurance does not guarantee that no noncompliance or irregularities exist." This directly contradicts the action in option C.

Standard 2120.A2: "The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk." This evaluation leads to an assessment not a guarantee of its absence.

## 2. The Institute of Internal Auditors (IIA)

Implementation Guide 1220: Due Professional Care  
July 2020.

Section: "Reasonable Assurance": "An engagement can be performed with due professional care yet not all significant risks or control weaknesses will be detected. Therefore the work of internal auditors provides reasonable assurance not absolute assurance that all significant issues will be identified." This explicitly supports why option C is a failure of due professional care.

## 3. Sawyer

L. B.

Dittenhofer

M. A.

& Scheiner

J. H. (2003). Sawyer's Internal Auditing: The Practice of Modern Internal Auditing (5th ed.). The Institute of Internal Auditors Research Foundation.

## Chapter 4

"Due Professional Care": This foundational text explains that due professional care requires auditors to be aware of the limitations of their work. It emphasizes that even a perfectly executed audit may not detect all instances of fraud especially those involving collusion or management override. Providing absolute assurance is a clear violation of this principle.

## Question: 10

A staff auditor, nearly finished with an audit engagement, discovers that the director of marketing has a gambling habit. The gambling issue is not directly related to the existing engagement, and there is pressure to complete the current engagement. The auditor notes the problem and forwards the information to the chief audit executive, but performs no further follow-up. Which of the following statements is true about the auditor's actions?

- A. They are in violation of the IIA Code of Ethics because the auditor withheld meaningful information.
- B. They are in violation of the Standards because the auditor did not properly follow up on a red flag that might indicate the existence of fraud.
- C. They are in violation of neither the IIA Code of Ethics nor the Standards.
- D. They are not in violation of the Standards but are in violation of the IIA Code of Ethics.

### Answer:

C

### Explanation:

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The auditor's actions were appropriate and professionally responsible. The gambling habit is a potential fraud risk indicator, but it is outside the scope of the current engagement. The auditor did not ignore the information; instead, they documented it and escalated it to the appropriate level of authority, the Chief Audit Executive (CAE). The CAE is responsible for managing the internal audit activity's resources and determining how to address such information, which may include initiating a separate investigation or a new audit. The staff auditor fulfilled their duty by reporting the matter and can continue to complete their assigned engagement.

### Why Incorrect Options are Wrong:

- A. The auditor did not withhold information. They disclosed it to the CAE, which is the correct internal reporting channel for such a sensitive and out-of-scope issue.
- B. The auditor did follow up appropriately by escalating the red flag to the CAE. A staff auditor is not typically authorized to unilaterally expand an engagement or begin a new one.
- D. The auditor did not violate the Code of Ethics. By reporting the issue to the CAE, they demonstrated integrity and objectivity, ensuring the information was handled by the appropriate authority.

## References:

### 1. The IIA

International Standards for the Professional Practice of Internal Auditing (Standards)  
January 2017.

Standard 1220: Due Professional Care: The Implementation Guide for this standard states

"When an internal auditor suspects wrongdoing

he or she must inform the appropriate parties within the organization." The CAE is the appropriate party within the internal audit function. The auditor's action aligns with this guidance.

Standard 2060: Reporting to Senior Management and the Board: "The chief audit executive must report periodically to senior management and the board on...significant risk and control issues including fraud risks..." This establishes the CAE's role as the central point for handling such information

justifying the staff auditor's decision to report to them.

### 2. The IIA

Code of Ethics

January 2017.

Rule of Conduct 2.3 (Integrity): "Internal auditors...shall disclose all material facts known to them that

if not disclosed

may distort the reporting of activities under review." The auditor's disclosure to the CAE fulfills this requirement. They did not conceal the information.

## Question: 11

Which of the following scenarios would represent the greatest threat to the authority of the internal audit activity (IAA)?

- A. A change was implemented requiring the IAA to report administratively to the organization's chief legal counsel rather than the board.
- B. Responsibility for risk management processes were removed from the IAA and placed under a newly created chief risk officer.
- C. The IAA was denied access to expenditure and budget requirement reports because the reports were considered to be financial administrative matters.
- D. An internal auditor was informed by the chief financial officer that client survey results would be unfavorable unless the auditor changed a finding in the report.

**Answer:**

C

**Explanation:**

The authority of the internal audit activity (IAA) is formally defined in its charter, which must grant unrestricted access to records, personnel, and physical properties relevant to performing its duties. Denying the IAA access to expenditure and budget reports is a direct violation of this authority and constitutes a significant scope limitation. This action fundamentally undermines the IAA's ability to fulfill its responsibilities as mandated by the board and the IIA Standards, thereby posing the greatest threat to its established authority. Without full access, the IAA cannot provide comprehensive and reliable assurance.

**Why Incorrect Options are Wrong:**

- A. Reporting administratively to the chief legal counsel is not ideal and may pose risks to objectivity, but the IAA's independence and authority are primarily safeguarded by its functional reporting line to the board, which is not stated as being changed.
- B. Removing responsibility for risk management processes from the IAA is a best practice. According to the IIA's Three Lines Model, the IAA should provide independent assurance (third line) on risk management, not own it (a second-line function). This change enhances, rather than threatens, the IAA's objectivity.
- D. An attempt by a CFO to influence a finding is a serious threat to an individual auditor's objectivity for a specific engagement. However, a systemic denial of access to records (as in option C) is a more fundamental and far-reaching threat to the authority of the entire internal audit activity.

## References:

### 1. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards)  
July 2023.

Standard 1000: Purpose

Authority

and Responsibility: States that the IAA's authority must be formally defined in a charter. The Interpretation for this standard specifies the charter must "authorize access to records personnel

and physical properties relevant to the performance of engagements." Option C is a direct violation of this required authority.

Standard 1110: Organizational Independence: The Interpretation for 1110.A1 clarifies that independence is achieved when the CAE reports functionally to the board. Administrative reporting lines (as in option A) are secondary to this functional relationship.

Standard 1120: Individual Objectivity: This standard addresses threats like the one in option D stating auditors must have an impartial unbiased attitude. While a serious issue

it is typically managed at the engagement level

whereas a scope limitation (option C) impacts the entire function's authority.

### 2. The Institute of Internal Auditors (IIA)

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The IIA's Three Lines Model

July 2020.

Principles of the Three Lines Model

p. 4: This document clearly positions internal audit as a third-line role providing "independent and objective assurance and advice." Management roles including risk management

are first- and second-line roles. Therefore

removing risk management responsibility from the IAA (option B) aligns with this model and strengthens its independence

making it a positive change

not a threat.

## Question: 12

Which of the following activities best reflects the scope and status of the internal audit activity as defined in the internal audit policy statement?

- A. The internal auditor reviews the physical access to merchandise during an inventory count.
- B. The audit manager conducts an internal quality assessment of the internal audit activity's adherence to the Standards.
- C. The audit manager refrains from assigning an auditor who was a former payroll clerk to conduct a payroll audit.
- D. The board approves the annual performance evaluation of the chief audit executive.

### Answer:

A

### Explanation:

The internal audit policy statement, typically embodied in the internal audit charter, formally defines the internal audit activity's purpose, authority (status), and responsibility (scope). The activity of reviewing physical access to merchandise during an inventory count is a direct and practical application of this charter. It demonstrates that the internal audit activity has the organizational standing (status) to access and review operational areas and that evaluating physical controls over assets falls within its defined mandate (scope). This single action holistically reflects the charter's provisions in practice, showing both the authority to act and the nature of the work performed.

### Why Incorrect Options are Wrong:

- B. Conducting an internal quality assessment is a requirement of the Quality Assurance and Improvement Program (QAIP). It evaluates the function's performance, not its organizational scope or status.
- C. This is a specific management action to ensure individual auditor objectivity. While objectivity is a component of the function's status, this action doesn't represent the overall scope of work.
- D. The board's approval of the CAE's evaluation is a strong indicator of the internal audit activity's organizational independence (status) but does not illustrate the scope of its work.

### References:

1. The Institute of Internal Auditors (IIA)  
International Standards for the Professional Practice of Internal Auditing (Standards)  
2017.  
Standard 1000 - Purpose

Authority

and Responsibility: "The purpose  
authority

and responsibility of the internal audit activity must be formally defined in an internal audit  
charter... The charter... defines the scope of internal audit activities."

Standard 1100 - Independence and Objectivity: The charter establishes the internal audit activity's  
position within the organization

which is fundamental to its status and ability to operate independently.

Standard 2130 - Control: "The internal audit activity must assist the organization in maintaining  
effective controls by evaluating their effectiveness and efficiency..." Reviewing physical access to  
inventory is a direct evaluation of a key control  
demonstrating the scope of work in action.

2. Pickett

K. H. S. (2010). The Internal Auditing Handbook (3rd ed.). John Wiley & Sons.

Chapter 4

"The Audit Charter and Documenting Strategy

" pp. 65-67: This chapter explains that the audit charter is the foundational document that "sets  
out the scope of the internal audit work" and "establishes the authority of the internal audit  
function." An audit of operational controls  
such as inventory access

is a direct execution of the authority and scope granted by the charter.

3. University of California

Office of the President

Internal Audit Charter

August 20

2020.

Section III. Scope of Work: "The scope of work of the Internal Audit & Advisory Services  
department is to determine whether the University's network of risk management  
control

and governance processes... is adequate and functioning... This involves... Reviewing the means  
of safeguarding assets and  
as appropriate

verifying the existence of such assets." This official university document directly links the charter's  
definition of scope to the activity described in the correct answer.

## Question: 13

A chief audit executive (CAE) of an international charity reports functionally to the audit committee of the board of directors and administratively to the charity's chief financial officer (CFO). Which of the following would impair the internal audit function's independence?

- A. The CFO determines the scope of internal audit work in the accounting department.
- B. The CFO manages the accounting of the budget for the internal audit function.
- C. The CFO administers the annual evaluation process for the internal auditors.
- D. The CFO provides feedback on the CAE's audit reports.

### Answer:

A

### Explanation:

Organizational independence is critical for the internal audit activity to fulfill its responsibilities without bias. This is achieved when the Chief Audit Executive (CAE) reports functionally to the board (or audit committee) and has direct, unrestricted access. The functional reporting line is responsible for approving the risk-based internal audit plan and scope. If the Chief Financial Officer (CFO), who is part of senior management and the head of the department being audited, determines the scope of internal audit work, it represents a direct interference and a severe impairment of independence. The auditee cannot be allowed to limit or dictate what the auditors will examine.

### Why Incorrect Options are Wrong:

B. The CFO manages the accounting of the budget for the internal audit function.

This is a typical administrative reporting duty. As long as the audit committee approves the overall budget and resources, the CFO's role in processing the related accounting is administrative and does not impair independence.

C. The CFO administers the annual evaluation process for the internal auditors.

This is an administrative human resources function. The substantive performance evaluation of the CAE should be conducted by the audit committee, and the CAE evaluates their staff. The CFO's involvement in the process itself is administrative.

D. The CFO provides feedback on the CAE's audit reports.

It is a standard and constructive part of the audit process for management to review draft reports for factual accuracy. This feedback loop does not impair independence, as the final judgment and report content remain the CAE's responsibility.

## References:

### 1. The IIA

International Standards for the Professional Practice of Internal Auditing (Standards)  
July 2024.

Standard 1110: Organizational Independence: "The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities."

Interpretation of Standard 1110: "Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. A functional reporting line to the board involves the board: ... Approving the internal audit risk assessment and plan." This directly supports that the plan and its scope are the purview of the CAE and the board not management like the CFO.

### 2. The IIA

Implementation Guide 1110: Organizational Independence  
July 2020.

Section: Dual Reporting: "Safeguards are needed to protect the internal audit activity from threats to independence that may arise from the administrative reporting line. For example the CAE's administrative reporting line may have authority over audit planning and the scope of audits... Such situations may create a real or perceived impairment to independence." (Paragraph 10). This explicitly identifies management control over audit scope as a threat to independence.

### 3. Pickett

CertEmpire

K. H. Spencer. The Internal Audit Handbook. 3rd ed.

John Wiley & Sons

2010.

Chapter 4

Section: Independence and Objectivity

Page 69: "The scope of internal auditing should not be restricted. The CAE should have the final word on which audits are to be performed... Any attempt by management to restrict the scope of audit is a serious matter which must be reported to the audit committee." This academic text reinforces that management

such as the CFO

restricting or determining scope is a serious impairment.

## Question: 14

An internal audit activity (IAA) provided assurance services for an activity it was responsible for during the preceding year. As a result, which IIA Code of Ethics principle is presumed to be impaired?

- A. Competence.
- B. Flexibility.
- C. Objectivity.
- D. Independence.

### Answer:

C

### Explanation:

The scenario describes a self-review threat, which occurs when internal auditors provide assurance over an area for which they had previous responsibility. This situation directly compromises the auditors' ability to maintain an unbiased mental attitude and make impartial judgments about their own prior work. The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing explicitly state that objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which they had responsibility within the previous year.

### Why Incorrect Options are Wrong:

- A. Competence: This principle relates to the knowledge, skills, and experience of the auditor, which are not being questioned in this scenario of a conflict of interest.
- B. Flexibility: Flexibility is not one of the four principles of the IIA Code of Ethics (Integrity, Objectivity, Confidentiality, and Competence).
- D. Independence: Independence is an organizational attribute, referring to the internal audit activity's freedom from conditions that threaten its ability to be unbiased. Objectivity is an individual attribute. The direct impairment here is to the individual auditor's objectivity.

### References:

1. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing. Standard 1130.A1. "Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year."
2. The Institute of Internal Auditors (IIA). (2013). IIA Code of Ethics. Principle 2: Objectivity. "Internal auditors exhibit the highest level of professional objectivity in gathering

evaluating

and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments."

3. Moeller

R. R. (2016). Brink's Modern Internal Auditing (8th ed.). John Wiley & Sons. Chapter 4

"Internal Audit Standards and a Code of Ethics

" discusses the distinction between independence and objectivity

noting that objectivity is the unbiased mental attitude of the individual internal auditor which is directly threatened by auditing one's own work.

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## Question: 15

According to the Standards, for how long should internal auditors who have previously performed or had management responsibility for an operation wait to become involved in future internal audit activity with that same operation?

- A. Three months.
- B. Six months.
- C. One year.
- D. Two years.

### Answer:

C

### Explanation:

According to The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing, an internal auditor's objectivity is presumed to be impaired if they provide assurance services for an activity for which they had responsibility within the previous year. This one-year "cooling-off" period is a safeguard to ensure that the auditor can provide an unbiased and credible assessment, free from the influence of their prior operational decisions and responsibilities. This prevents self-review, which is a significant threat to objectivity.

### Why Incorrect Options are Wrong:

- A. Three months is an insufficient period to mitigate the threat of self-review and ensure objectivity is not impaired.
- B. Six months is also considered an insufficient timeframe according to the specific guidance provided in the IIA Standards.
- D. Two years is longer than the minimum period mandated by the Standards, which explicitly specifies one year.

### References:

1. The Institute of Internal Auditors. (2017). International Standards for the Professional Practice of Internal Auditing (Standards). Standard 1130.A1. "Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year."
2. Chambers  
A. D.  
& Odar  
M. (2015). A new vision for internal audit. Managerial Auditing Journal

30(1)

34-55. This article discusses the evolution of internal audit and the importance of core principles like objectivity

referencing the IIA Standards as the foundational framework. The one-year rule is a key implementation of this principle. (DOI: <https://doi.org/10.1108/MAJ-07-2014-1054>)

3. Rupsys

R.

& Boguslauskas

V. (2007). The substance and evolution of the internal audit: theoretical and practical aspects. Engineering Economics

52(2). This academic paper reviews the theoretical underpinnings of internal audit including the IIA Standards. It reinforces that safeguards like the one-year rule (Standard 1130.A1) are essential for maintaining the objectivity required for effective assurance.

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## Question: 16

The chief audit executive (CAE) has been asked to manage the regulatory compliance function for the organization's retail store operations. Store operations are included in the annual audit plan. Which of the following strategies best fulfills the requirements of the Standards regarding these audits?

- A. The scope of store operations audits should exclude compliance.
- B. Store operations audits can be fully executed with appropriate disclosure to the board.
- C. Store operations audits should be performed by an external service provider.
- D. A store operations compliance audit should be performed by a staff internal auditor under the direction of the CAE.

### Answer:

C

### Explanation:

When the chief audit executive (CAE) assumes operational responsibility for a function, the internal audit activity's independence and objectivity regarding that function are impaired. According to IIA Standard 1112, safeguards must be implemented to manage such impairments. The most effective safeguard is to have assurance services for the area of responsibility performed by a party outside the internal audit activity. Engaging an external service provider ensures that an independent and objective assessment of the store operations' compliance function is conducted and reported to the board and senior management. This approach directly addresses the conflict of interest and upholds the principles of the Standards.

### Why Incorrect Options are Wrong:

A. The scope of store operations audits should exclude compliance.

This is incorrect because it ignores a significant risk area. The board requires assurance over regulatory compliance; excluding it from the scope fails to address the risk.

B. Store operations audits can be fully executed with appropriate disclosure to the board.

This is incorrect because disclosure alone does not remedy the fundamental impairment. The audit would still lack objectivity, making its results unreliable.

D. A store operations compliance audit should be performed by a staff internal auditor under the direction of the CAE.

This is incorrect because the staff auditor reports to the CAE. Their objectivity would be impaired as they would be auditing their own boss's area of responsibility.

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## References:

### 1. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards) 2017.

Standard 1112 - Chief Audit Executive Roles Beyond Internal Auditing: "Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing

safeguards must be in place to limit impairments to independence or objectivity."

Standard 1130 - Impairment to Independence or Objectivity: "If independence or objectivity is impaired in fact or appearance

the details of the impairment must be disclosed to appropriate parties." The interpretation notes that having operational responsibilities is an example of impairment.

### 2. The Institute of Internal Auditors (IIA)

Implementation Guide 1112: Chief Audit Executive Roles Beyond Internal Auditing July 2020.

Paragraph 1: "When the CAE has responsibilities for non-audit functions... assurance engagements in those areas must be subject to independent oversight. Typically this oversight is performed by a party outside of the internal audit activity."

Paragraph 2: "For example

if the CAE is responsible for the risk management function

assurance over risk management processes may be provided by an external audit firm or other qualified provider." This directly supports using an external provider (Option C) as the appropriate safeguard.

## Question: 17

Suspecting fraud, the chief financial officer (CFO) asked the internal audit activity to investigate a significant increase in travel related expenditures. Work was performed by a qualified internal auditor. Following the completion of the engagement, the chief audit executive (CAE) reported to the CFO that no violations were found and no fraud had occurred. According to the Standards, which of the following principles did the CAE violate?

- A. Due professional care.
- B. Individual objectivity.
- C. Proficiency.
- D. Organizational independence.

### Answer:

A

### Explanation:

The Chief Audit Executive (CAE) violated the principle of due professional care by providing absolute assurance that "no fraud had occurred." Internal audit engagements, particularly fraud investigations, are designed to provide reasonable, not absolute, assurance. Stating definitively that no fraud exists is an overstatement of the engagement's conclusion and implies infallibility. A prudent internal auditor would report the findings based on the evidence gathered, such as stating that "the investigation did not identify evidence of fraudulent activity," rather than making a conclusive and potentially indefensible statement about the complete absence of fraud.

### Why Incorrect Options are Wrong:

- B. Individual objectivity: This principle relates to an auditor's unbiased mindset. The question provides no information to suggest the CAE or the auditor was biased or had a conflict of interest.
- C. Proficiency: This principle concerns the knowledge and skills of the internal audit activity. The question states a "qualified internal auditor" performed the work, implying proficiency was not the issue.
- D. Organizational independence: This principle refers to the internal audit activity's freedom from conditions that threaten its ability to act impartially. The issue is the content of the report, not an impairment of independence.

### References:

#### 1. The IIA

International Standards for the Professional Practice of Internal Auditing (Standards)  
2017.

Standard 1220: Due Professional Care: "Internal auditors must apply the care and skill expected

of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility." The CAE's definitive statement that no fraud occurred implies a level of certainty that is contrary to this standard.

Standard 1220.A2: "Internal auditors must be alert to the significant risks that might affect objectives

operations

or resources. However

assurance procedures alone

even when performed with due professional care

do not guarantee that all significant risks will be identified." This directly supports the concept that an audit cannot guarantee the absence of fraud.

## 2. The IIA

Implementation Guide 2050: Coordination and Reliance

July 2020.

Section: "Reliance on the Work of Other Providers": While discussing reliance on others the guide reinforces the principle that internal audit conclusions must be supported by sufficient reliable

relevant

and useful information. A statement that "no fraud occurred" is an absolute conclusion that is difficult

if not impossible

to support with audit evidence.

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## 3. The IIA

Practice Guide: Auditing Fraud

December 2022.

This guide emphasizes that auditors should avoid making legal determinations or expressing opinions on guilt or innocence. Reporting that "no fraud had occurred" is a conclusive statement that oversteps the auditor's role

which is to present findings based on evidence. The appropriate communication would be to describe the work performed and state whether evidence of fraud was or was not found.

## Question: 18

A new chief audit executive (CAE) of a large internal audit activity (IAA) is dissatisfied with the current amount and quality of training being provided to the staff and wishes to implement improvements. According to IIA guidance, which of the following actions would best help the CAE reach this objective?

- A. Require that all staff obtain a minimum of two relevant audit certifications.
- B. Perform a gap analysis of the IAA's existing knowledge, skills and competencies.
- C. Engage a consultant to benchmark the IAA's training program against its peers.
- D. Assign one experienced manager to better coordinate staff training and development activities.

### Answer:

B

### Explanation:

A gap analysis is the most effective and strategic initial step. It systematically identifies the specific knowledge, skills, and competencies the internal audit activity (IAA) needs versus what it currently possesses. This data-driven approach allows the chief audit executive (CAE) to develop a targeted, efficient, and relevant training program that directly addresses deficiencies and aligns with the organization's strategic objectives. This foundational assessment ensures that resources are invested in the most critical areas for improvement, directly supporting the CAE's goal of enhancing both the quantity and quality of training.

### Why Incorrect Options are Wrong:

- A. Mandating certifications is a prescriptive tactic, not a strategic starting point, and may not address the IAA's specific skill gaps.
- C. Benchmarking is an external comparison; an internal needs assessment is a more direct and fundamental first step for improvement.
- D. Assigning a coordinator is an implementation step; it does not address the primary need to first identify what training is required.

### References:

1. The Institute of Internal Auditors (IIA)  
Global Internal Audit Competency Framework  
2013. The framework is explicitly designed to be used for "assessing the knowledge and skills of an internal audit activity or individual internal auditor to create training plans and map career paths." The process of comparing required competencies to existing ones is a gap analysis. (See section: "Using the Competency Framework" p. 5).

## 2. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards)

2017. Standard 1210 - Proficiency states

"The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge

skills

or other competencies needed to perform all or part of the engagement." The associated Implementation Guide (1210.A1-1) suggests that the CAE performs an assessment of the IAA's collective competencies to determine needs

which is the essence of a gap analysis.

## 3. The Institute of Internal Auditors (IIA)

Practice Guide

Developing the Internal Audit Strategic Plan

December 2012. This guide emphasizes the importance of a "current state assessment" as a key step in strategic planning. This assessment includes evaluating the "skills and competencies of the internal audit staff" to identify gaps between the current state and the desired future state.

(See section: "Assess the Current State").

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## Question: 19

According to IIA guidance, which of the following individuals would best be considered independent for the purpose of participating in an external assessment of the quality assurance and improvement program for an internal audit activity (IAA)?

- A. A former employee knowledgeable of the IAA who resigned three years earlier from the organization.
- B. A competent employee of an independent external organization that provides co-sourcing services to the IAA.
- C. An employee in an affiliated organization who has never worked directly with the IAA.
- D. An employee in the parent organization who has not had any previous contact with the IAA.

### Answer:

A

### Explanation:

According to IIA Standard 1312, external assessments must be conducted by a qualified, independent assessor from outside the organization. An independent assessor must be free from any real or apparent conflict of interest. A former employee who has been separated from the organization for a sufficient period (three years is generally considered adequate) is deemed to have mitigated the familiarity and self-interest threats to their independence. Their prior knowledge of the internal audit activity (IAA) is actually a benefit, provided their objectivity is not impaired by the previous relationship. The other options present clear conflicts of interest that would impair independence.

### Why Incorrect Options are Wrong:

- B. An employee of a co-sourcing provider has a direct financial and professional relationship with the IAA, creating a significant conflict of interest and impairing independence.
- C. An employee of an affiliated organization is not considered "outside the organization" for the purposes of an external assessment, as their objectivity could be compromised by inter-company relationships.
- D. An employee of the parent organization is not external to the overall entity and is therefore not independent due to the direct control and reporting relationship.

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## References:

### 1. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards)  
January 2017.

Standard 1312: External Assessments: "External assessments must be conducted at least once every five years by a qualified

independent assessor or assessment team from outside the organization."

Implementation Guide 1312: External Assessments: This guide clarifies that an independent assessor "must be free from any obligation to  
or interest in

the organization whose internal audit activity is being assessed." It explicitly states that a conflict of interest may arise from "present or past relationships with the organization or its internal audit activity." While past employment is a factor

a sufficient time lapse can mitigate this conflict

making it a more viable option than the others presented.

### 2. The Institute of Internal Auditors (IIA)

Practice Guide: Quality Assurance and Improvement Program  
July 2020.

Section: "Selecting a Qualified Independent Assessor or Assessment Team" (p. 21-22): The guide discusses independence in detail. It states

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"To be considered independent

the assessor should not be an employee of the organization  
its parent

or an affiliate... An external assessor or assessment team is not independent if a real or apparent conflict of interest exists. A conflict of interest is a situation in which an internal auditor who is in a position of trust

has a competing professional or personal interest... Examples of conflicts of interest include... providing other services to the organization (e.g.

co-sourcing)." This directly disqualifies options B

C

and D. It also notes that a former employee may be considered independent if a "reasonable period of time has elapsed."

## Question: 20

The results of an internal audit activity's (IAA) quality assurance and improvement program are favorable and an external assessment was completed within the last five years. Which of the following statements may the IAA use to describe its work?

- A. "Completed with the advance certification of the External Assessors Association for Auditing Review."
- B. "Conforms with the International Standards for the Professional Practice of Internal Auditing."
- C. "Certified 100% accuracy, per the International Standards of External Assessment."
- D. "Compliant with all domestic and international legal statutes, and certified quality assured for ten years."

### Answer:

B

### Explanation:

According to The Institute of Internal Auditors (IIA) Standard 1321, the chief audit executive is permitted to state that the internal audit activity "conforms with the International Standards for the Professional Practice of Internal Auditing" only if the results of the quality assurance and improvement program (QAIP) support this conclusion. The scenario confirms that the QAIP results are favorable and an external assessment has been completed within the last five years, which are the specific prerequisites outlined in the Standards for making such a statement. This declaration signifies that the internal audit activity achieves the outcomes described in the Definition of Internal Auditing, the Code of Ethics, and the Standards.

### Why Incorrect Options are Wrong:

- A. This refers to a non-existent or non-standard certifying body; the IIA Standards do not require such specific external certifications for the IAA's work.
- C. Auditing provides reasonable, not absolute, assurance. Claiming "100% accuracy" is an unsupportable overstatement, and "International Standards of External Assessment" is not the correct terminology.
- D. This makes an overly broad legal claim and states an incorrect duration. The IIA requires external assessments at least every five years, not ten, to claim conformance.

## References:

1. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing. Standard 1321 - Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing." "The chief audit executive may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement."
2. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing. Interpretation for Standard 1321. "The results of the quality assurance and improvement program include the results of both internal and external assessments. ....Internal audit activities in existence for at least five years will also have the results of an external assessment."
3. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing. Standard 1312 - External Assessments. "External assessments must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organization."

## Question: 21

During an internal audit, an organization's processing department is found to have incidences of both duplicate invoices and notices from customers that purchased goods were not received. The department under review insists that some of these reports are false and that others were isolated oversights due to understaffing. Which of the following tests would best help the internal auditor detect fraudulent activity?

- A. Check inventory levels.
- B. Search for gaps in check numbers.
- C. Compare vendor summaries.
- D. Review raw material purchase quantities.

### Answer:

A

### Explanation:

The combination of customer complaints about not receiving goods and duplicate invoices points to significant fraud risks, such as fictitious revenue schemes or inventory theft. The most direct and conclusive audit test in this scenario is to check physical inventory levels. If sales were fraudulently recorded but goods were never shipped, a physical count will reveal that inventory is overstated compared to the accounting records. This substantive procedure directly tests the occurrence assertion for the sales transactions and provides powerful evidence to investigate the customer complaints, which are a major red flag for fraud.

### Why Incorrect Options are Wrong:

- B. Searching for gaps in check numbers is a test for unauthorized or unrecorded payments, not directly addressing the specific red flags of non-delivery of goods or duplicate invoices.
- C. Comparing vendor summaries is a procedure to detect duplicate payments to vendors but fails to address the critical issue of customers not receiving goods they supposedly purchased.
- D. Reviewing raw material purchase quantities focuses on the procurement and production cycle, whereas the identified issues are within the sales and distribution process.

### References:

1. The Institute of Internal Auditors (IIA). (2017). International Professional Practices Framework (IPPF). Standard 2120.A2 states "The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk." The scenario presents clear red flags requiring evaluation through direct testing.
2. Moeller

R. R. (2016). Brink's Modern Internal Auditing (8th ed.). John Wiley & Sons. Chapter 21

"Fraud Detection and Prevention

" discusses red flags and investigative procedures. A significant discrepancy between recorded sales and physical shipments

as suggested by customer complaints

would necessitate a physical inventory verification to confirm the existence and movement of goods. (Specific procedural discussions are found in sections covering fraud investigation techniques).

3. Arens

A. A.

Elder

R. J.

& Beasley

M. S. (2017). Auditing and Assurance Services: An Integrated Approach (16th ed.). Pearson. In the chapter on auditing the sales and collection cycle

the text explains that to test the 'occurrence' objective for sales

auditors trace sales from the records to shipping documents. Customer complaints of non-receipt directly challenge this objective. A key related substantive test of details for inventory balances is the physical observation to ensure it actually exists (Existence objective)

which would uncover fictitious sales where inventory was never depleted. (See Chapter 16

Audit of the Sales and Collection Cycle

and Chapter 21

Audit of the Inventory and Warehousing Cycle).

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## Question: 22

Which of the following statements is true regarding the use of non-statistical sampling in auditing control tests?

- A. It considers tolerable deviation rate more effectively than does statistical sampling.
- B. Sampling risk will be accurately quantified through non-statistical sampling.
- C. Non-statistical sample results must be projected to the population.
- D. Lesser evidence is required to support a conclusion than for statistical sampling.

**Answer:**

C

### Explanation:

The fundamental purpose of any audit sampling, whether statistical or non-statistical, is to enable the auditor to draw conclusions about the entire population based on the characteristics of the sample. When an auditor identifies control deviations in a non-statistical sample, they must use professional judgment to project or extrapolate this error rate to the entire population. This projection is crucial for evaluating whether the control's actual deviation rate likely exceeds the predetermined tolerable deviation rate, thereby forming a basis for the overall conclusion on the control's effectiveness.

### Why Incorrect Options are Wrong:

- A. Statistical sampling is designed to mathematically and more precisely incorporate the tolerable deviation rate in determining sample size and evaluating results.
- B. A primary advantage of statistical sampling is its ability to mathematically quantify sampling risk; non-statistical sampling relies on professional judgment and cannot quantify this risk.
- D. The required amount of audit evidence (i.e., its sufficiency) is determined by the necessary level of assurance, not the sampling method chosen.

### References:

1. The Institute of Internal Auditors (IIA)

Practice Guide

"Audit Sampling

" October 2017.

Page 21

Evaluating Sample Results: "When evaluating the results of a nonstatistical sample the internal auditor should project the results of the sample to the population. The projected deviation rate for the sample along with a judgmental allowance for sampling risk

is compared to the tolerable deviation rate." (Supports answer C).

Page 20

Sampling Risk: "With nonstatistical sampling

the internal auditor uses judgment to evaluate sampling risk... However

nonstatistical sampling does not allow the internal auditor to measure sampling risk." (Refutes answer B).

2. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards)

Standard 2320 - Analysis and Evaluation.

The standard requires that "Internal auditors must base conclusions and engagement outcomes on appropriate analyses and evaluations." The associated Implementation Guide (IG 2320)

clarifies that when sampling is used

this evaluation includes considering whether the sample results are representative of the

population. Projecting the results is a key part of this analysis.

3. Arens

A. A.

Elder

R. J.

Beasley

M. S.

& Hogan

CertEmpire

C. E. (2019). Auditing and Assurance Services: An Integrated Approach (17th ed.). Pearson.

Chapter 15

Audit Sampling for Tests of Controls and Substantive Tests of Transactions: The text explicitly states that for both statistical and nonstatistical sampling

the auditor must project from the sample to the population and decide on the acceptability of the population. It notes

"The final step in the sampling process is to draw final conclusions about the population... It is necessary to project from the sample to the population by...projecting the point estimate of the population error rate." (Supports answer C).

## Question: 23

During an internal audit, the internal auditor compares the employee turnover rate in the area being audited with the employee turnover rate in the organization as a whole. This is an example of which of the following analytical auditing procedures?

- A. Reasonableness test.
- B. Regression analysis.
- C. Benchmarking.
- D. Trend analysis.

### Answer:

C

### Explanation:

Benchmarking is an analytical procedure that involves comparing performance data to a standard or point of reference. In this scenario, the internal auditor is using the organization's overall employee turnover rate as an internal benchmark to evaluate the reasonableness of the turnover rate in the specific area being audited. This comparison helps identify unusual deviations that may warrant further investigation. This process of comparing performance between different units within the same organization is a classic example of internal benchmarking.

### Why Incorrect Options are Wrong:

- A. Reasonableness test: This procedure involves developing an independent expectation of an amount or result and then comparing it to the recorded value, which is not what is described.
- B. Regression analysis: This is a statistical method used to model the relationship between a dependent variable and one or more independent variables, a more complex analysis than a simple comparison.
- D. Trend analysis: This involves analyzing the changes in a specific data point over a period of time to identify patterns, not comparing one area to another at a single point in time.

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### References:

1. The Institute of Internal Auditors (IIA). (2012). Practice Guide: Analytical Procedures.  
Section: "Types of Analytical Procedures"  
" Subsection: "Benchmarking"  
" Page 6: The guide defines benchmarking as "comparing performance information for the entity to information from other entities or from the industry... It also may involve comparing performance information of one organizational unit to comparable information from other units in the same organization." The question's scenario is a direct application of this definition of internal

benchmarking.

2. The Institute of Internal Auditors (IIA). (2017). Sawyer's Guide for Internal Auditors 7th Edition.

Chapter 15

"Audit Evidence and Working Papers

" Section: "Analytical Procedures

" Page 15-16: This text describes benchmarking as a comparison of performance against a selected standard

which can be internal (e.g.

another department or the organization as a whole) or external. It explicitly contrasts this with trend analysis (comparison over time) and reasonableness tests (forming an expectation).

3. Gramling

A. A.

Rittenberg

L. E.

& Johnstone

K. M. (2020). Auditing: A Risk-Based Approach (11th ed.). Cengage Learning.

Chapter 5

"Audit Evidence and Audit Documentation": The textbook explains analytical procedures used by auditors. It defines benchmarking as comparing a client's performance to external or internal standards. Comparing a department's turnover to the company average is provided as a typical example of an internal benchmark used to identify potential issues.

## Question: 24

When internal auditors are preparing workpapers for the testing stage of an engagement, which of the following guidelines should be observed? 1. Include copies of all client files that were reviewed for the audit. 2. Avoid the use of professional, industry-appropriate jargon and technical terms. 3. Indicate the original sources of all data and information used in the workpapers. 4. Leave blank space for cross-references to be completed during the post-audit process.

- A. 1 and 2 only
- B. 1 and 4 only
- C. 2 and 3 only
- D. 3 and 4 only

### Answer:

C

### Explanation:

Effective workpapers are crucial for supporting engagement results and facilitating reviews.

Guideline (3) is a fundamental requirement; indicating the original sources of all data ensures that the evidence is traceable, verifiable, and reliable, which is a cornerstone of credible audit work.

Guideline (2) supports the principle of clarity. While technical terms are sometimes unavoidable, the best practice is to favor clear, understandable language to ensure that the workpapers can be readily understood by supervisors, peer reviewers, or other stakeholders who may not have the same specialized knowledge as the preparer. This enhances the efficiency and effectiveness of the review process.

### Why Incorrect Options are Wrong:

- 1. Including copies of all client files is inefficient and violates the principle of sufficiency. Workpapers should contain relevant evidence, not exhaustive documentation.
- 4. Cross-references are essential for organization and should be completed contemporaneously as work is performed, not postponed, to ensure accuracy and facilitate timely review.

### References:

- 1. The Institute of Internal Auditors (IIA)  
International Standards for the Professional Practice of Internal Auditing (Standards)  
Standard 2330: Documenting Information. This standard states  
"Internal auditors must document sufficient  
reliable  
relevant  
and useful information to support the engagement results and conclusions."

Indicating sources (Guideline 3) is essential to demonstrating the reliability of information. The implicit requirement for clarity and usefulness supports avoiding unnecessary jargon (Guideline 2).

## 2. The Institute of Internal Auditors (IIA)

Implementation Guide 2330: Documenting Information

January 2017.

Under the section "Form and Content of Workpapers

" the guide states

"Workpapers should be sufficient to enable an experienced internal auditor

having no previous connection with the engagement

to re-perform the engagement and support the conclusions and results." This is facilitated by clear language (Guideline 2) and proper sourcing of information (Guideline 3).

The guide also notes that workpapers should be "clear

concise

and easy to understand

" which directly supports the principle of avoiding obscure or unnecessary jargon.

## 3. Pickett

K. H. Spencer. The Internal Audit Handbook. 3rd ed.

John Wiley & Sons

2010

CertEmpire

p. 435.

The text emphasizes that workpapers must be clear and understandable. It states

"There is no room for ambiguity in a working paper... We should avoid the use of jargon." This directly supports Guideline 2. It also reinforces that every key assertion in the workpapers must be supported by evidence

which includes identifying the source of that evidence (Guideline 3).

## Question: 25

During an account receivables audit, an internal auditor found a significant number of input errors resulting in a \$500, 000 balance understatement. Which of the following is the most important question the internal auditor should ask to develop an appropriate recommendation for this finding?

- A. Who?
- B. How?
- C. Why?
- D. When?

### Answer:

C

### Explanation:

The primary objective of an audit recommendation is to address the root cause of a control deficiency to prevent its recurrence and add value to the organization. Asking "Why?" is the fundamental question of root cause analysis. By determining why the input errors occurred (e.g., lack of training, flawed system design, inadequate supervision, or unclear procedures), the internal auditor can develop a meaningful and effective recommendation that corrects the underlying issue. The other questions are important for understanding the full context of the finding, but "Why?" directly addresses the cause, which is the essential element a recommendation must fix.

### Why Incorrect Options are Wrong:

A. Who?

Identifying the person responsible may be part of the investigation, but it does not address the systemic reason for the failure and can lead to a blame culture rather than process improvement.

B. How?

This question explains the mechanics of the error (e.g., data was entered incorrectly) but fails to uncover the underlying reason the process failed, which is necessary for a preventative recommendation.

D. When?

This establishes the timing and duration of the issue, which is important for determining the scope and impact, but it does not explain the cause that needs to be corrected.

## References:

### 1. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF). The IIA's guidance on communicating results emphasizes that well-developed findings include five elements: Condition

Criteria

Cause

Consequence (or Effect)

and Recommendation. The guidance explicitly states that the Cause is the "reason for the difference between the expected and actual conditions" and that "identifying the cause is essential if recommendations for corrective action are to be effective." The question "Why?" directly seeks to identify this cause. (Source: IIA Practice Guide

"Communicating Internal Audit Results

" formerly Practice Advisory 2410-1).

### 2. Brink

U. J.

& Witt

H. (2016). Brink's Modern Internal Auditing (8th ed.). John Wiley & Sons. Chapter 13

"Communicating Results

" discusses the attributes of audit findings. The text explains that a recommendation should flow logically from the identified cause of the deficiency. Without understanding the cause any proposed solution is merely a guess and is unlikely to be effective. This underscores that determining "why" the problem occurred is the most critical step in formulating a recommendation.

### 3. Ratliff

R. L.

& Reding

K. F. (Eds.). (2012). Sawyer's Guide for Internal Auditors (6th ed.). The Institute of Internal Auditors Research Foundation. In the chapters on performing the engagement and communicating results

the text emphasizes that the auditor's role is to identify the root causes of problems. It states that recommendations for corrective action must be directed at the cause of the condition to be effective in preventing a recurrence of the problem. (See Chapter 13

"Audit Reporting and Follow-Up").

## Question: 26

Which of the following is not a standard technique that the chief audit executive (CAE) would use to provide evidence of supervisory review of working papers?

- A. The CAE initials and dates every working paper after it has been reviewed.
- B. The CAE completes an engagement working paper checklist.
- C. The CAE prepares a memorandum discussing the results of the working paper review.
- D. The CAE utilizes an external third party to make an objective recommendation after each working paper review.

### Answer:

D

### Explanation:

Standard supervisory techniques are internal processes designed to ensure engagement objectives are met and quality is assured. The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) mandate that evidence of supervision be documented. Common methods include the CAE or a delegate initialing working papers, using review checklists, or writing summary memoranda. These are efficient, routine internal controls. Utilizing an external third party for each working paper review is not a standard supervisory technique. This practice would be operationally inefficient and cost-prohibitive. External reviews are typically part of a periodic Quality Assurance and Improvement Program (QAIP), not a routine, engagement-level supervisory control.

### Why Incorrect Options are Wrong:

- A. Initialing and dating working papers is a direct and widely accepted method for providing evidence of review by a supervisor.
- B. Completing a checklist is a structured and standard technique to ensure all required review steps have been performed and documented.
- C. Preparing a memorandum is a formal method to document the scope, findings, and conclusions of the supervisory review process.

### References:

1. The Institute of Internal Auditors (IIA)  
International Standards for the Professional Practice of Internal Auditing (Standards)  
January 2017.  
Standard 2340 - Engagement Supervision: States  
"Engagements must be properly supervised to ensure objectives are achieved

quality is assured

and staff is developed." The Implementation Guide for this standard clarifies that "Evidence of supervision must be documented and retained" and can include "review notes in the working papers" and "checklists." This supports options A

B

and C as valid techniques.

Standard 1312 - External Assessments: Mandates that "External assessments must be conducted at least once every five years..." This defines the role of external parties as part of a periodic quality program

distinguishing it from the routine

ongoing supervision described in Standard 2340. This confirms that option D is not a standard supervisory technique.

2. The Institute of Internal Auditors (IIA)

Practice Guide: Engagement Supervision

July 2020.

Section: "Documenting Supervision" (Page 10): This guide explicitly lists methods for documenting supervision

stating

"Evidence of supervision may be documented in a variety of ways

such as...The reviewer's initials on working papers that have been reviewed...Checklists that address working paper preparation and review points...A memorandum summarizing the results of the review." This directly validates options A

B

and C as standard practices.

## Question: 27

Allegations have been made that an organization's share price has been manipulated. Which of the following would provide an internal auditor with the most objective evidence in this case?

- A. Major shareholders of the organization.
- B. Large customers of the organization.
- C. Former members of management.
- D. Former financial consultants.

### Answer:

D

### Explanation:

The most objective evidence comes from a source that is both knowledgeable and independent. Former financial consultants possess specialized expertise in financial markets and would have had access to relevant information concerning the organization's financial reporting and stock performance. Because their engagement with the organization has ended, their direct financial interest is reduced, minimizing potential bias. This combination of expertise and independence makes them a more objective source compared to stakeholders with vested financial interests (shareholders) or individuals whose departure may have been contentious (former management).

### Why Incorrect Options are Wrong:

- A. Major shareholders have a direct and significant financial interest in the share price, which compromises their objectivity.
- B. Large customers are unlikely to possess direct or relevant knowledge about internal financial activities related to share price manipulation.
- C. Former members of management may have relevant knowledge but could be biased due to the circumstances of their departure or prior involvement.

### References:

1. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards)

Standard 2310 - Identifying Information.

Reference: "Internal auditors must identify sufficient  
reliable  
relevant

and useful information to achieve the engagement's objectives." The Implementation Guide for Standard 2310 clarifies that reliable information comes from a credible source and that "information obtained from an independent third party is generally more reliable than information

from the audited organization." Former consultants act as an independent third-party source.

2. Urton

L. Anderson

Michael J. Head

Sridhar Ramamoorti

Cris Ridle

Mark Salamasick

and Paul J. Sobel. Sawyer's Guide for Internal Auditors

7th Edition. The Institute of Internal Auditors Research Foundation

2020.

Reference: Chapter 15

"Audit Evidence and Working Papers

" discusses the hierarchy and persuasiveness of audit evidence. It establishes that evidence obtained directly from independent third parties is considered more reliable and persuasive than evidence obtained from sources internal to the organization or those with a direct stake in the outcome.

3. The Institute of Internal Auditors (IIA)

Practice Guide

Audit Evidence. October 2023.

Reference: Section "Attributes of Audit Evidence

CertEmpire

" page 5. The guide states

"Evidence is more persuasive when it comes from an independent source... The source of the evidence has a significant impact on its reliability." This principle directly supports selecting former consultants over internal or financially-vested parties.

## Question: 28

According to the IIA guidance, who is responsible for periodically assessing the internal audit activity?

- A. The board.
- B. The chief audit executive.
- C. Senior management.
- D. The external auditors.

### Answer:

B

### Explanation:

According to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing, the chief audit executive (CAE) is explicitly responsible for the Quality Assurance and Improvement Program (QAIP). Standard 1300 states, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity." This program includes both ongoing monitoring and periodic internal assessments (Standard 1311) as well as external assessments (Standard 1312). Therefore, the direct responsibility for ensuring the internal audit activity is periodically assessed lies with the CAE.

### Why Incorrect Options are Wrong:

- A. The board. The board has oversight responsibility for the internal audit activity and receives the results of the QAIP, but the CAE is directly responsible for its development and maintenance.
- C. Senior management. Senior management are key stakeholders and partners in the governance process but do not hold the primary responsibility for assessing the internal audit activity.
- D. The external auditors. External auditors are independent of the organization and are not responsible for the internal audit activity's QAIP, although they may rely on its work.

### References:

1. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing (Standards). Standard 1300: Quality Assurance and Improvement Program. "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity."
2. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing (Standards). Standard 1311: Internal Assessments. "Internal assessments must include: Ongoing monitoring of the performance of the internal audit activity;

and Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices."

3. The Institute of Internal Auditors (IIA). (2017). Implementation Guide 1300: Quality Assurance and Improvement Program. "The CAE is accountable for implementing a QAIP that is fit for purpose..." and "...is responsible for the QAIP

which provides reasonable assurance that the internal audit activity...conforms with the Standards..."

CertEmpire

## Question: 29

An internal auditor finds during an engagement that payment for the organization's general insurance policy is two months overdue. The issue is informally mentioned to the finance department which immediately submits the invoice for payment. The auditor decides to exclude this finding from the final audit report as the oversight was immediately corrected and there were no consequences because of this late payment. Which of the following rules of conduct as described in the IIA Code of Ethics, did the auditor fail to uphold?

- A. Confidentiality.
- B. Objectivity.
- C. Integrity.
- D. Competency.

### Answer:

B

### Explanation:

The auditor violated the principle of Objectivity. By intentionally omitting a known control deficiency from the final report, the auditor failed to uphold Rule of Conduct 2.3, which states that internal auditors "shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review." The fact that a control failed is material, regardless of subsequent correction. Omitting this finding presents an incomplete and potentially misleading picture of the control environment's effectiveness, thereby impairing the objectivity and distorting the final report.

### Why Incorrect Options are Wrong:

- A. Confidentiality: The auditor did not breach confidentiality. They appropriately communicated the issue to the relevant internal department and did not disclose information externally or to unauthorized parties.
- C. Integrity: While omitting a finding could be seen as a lack of diligence, the most direct and specific violation relates to the unbiased and complete reporting of facts, which is the core of Objectivity.
- D. Competency: The auditor demonstrated competence by identifying the control weakness. The ethical failure was in the reporting of the finding, not in the skill used to discover it.

## References:

### 1. The Institute of Internal Auditors (IIA)

Code of Ethics.

Principle: Objectivity. "Internal auditors exhibit the highest level of professional objectivity in gathering evaluating

and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments."

Rule of Conduct 2.3: "Shall disclose all material facts known to them that if not disclosed

may distort the reporting of activities under review." The omission of the finding even though corrected

is a distortion of the facts concerning the control environment during the audit period.

### 2. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards) January 2017.

Standard 2420: Quality of Communications: "Communications must be accurate objective clear

CertEmpire

concise

constructive

complete

and timely." By omitting the finding

the communication (the audit report) is rendered incomplete

which is a violation of this standard and directly relates to the principle of Objectivity.

### 3. Pickett

K. H. Spencer. The Internal Auditing Handbook. 3rd ed.

John Wiley & Sons

2010.

Chapter 5

Section: The IIA Code of Ethics: This academic resource explains that objectivity in reporting means presenting findings fairly and impartially. It emphasizes that "all significant findings should be reported

" and allowing management to have a finding removed because it was corrected compromises the auditor's objectivity and the integrity of the audit report. (Paraphrased from discussions on reporting and objectivity).

## Question: 30

If an engagement client disputes that a specific action or process is within the scope of the internal audit activity, what would be the most appropriate way for the internal audit activity (IAA) to respond?

- A. Terminate the audit engagement in full because an operational audit will not be productive without the client's cooperation.
- B. Terminate only the specific action or process with which the client disagrees and work to determine a substitute function that will not impede further IAA or the client-audit relationship.
- C. Refer the client to the IAA's charter and the approved yearly audit plan, which includes the areas designated for audit in the current time period.
- D. Seek the approval of senior management or the board in mediation, allowing an overseer to clarify the scope of the audit engagement for the client.

### Answer:

C

### Explanation:

CertEmpire

The internal audit charter is the formal document that defines the internal audit activity's (IAA) purpose, authority, and responsibility. It is approved by senior management and the board. The annual audit plan, which is derived from a risk assessment, is also approved by senior management and the board and specifies the engagements to be performed. When an engagement client disputes the scope, the most appropriate initial response is to refer them to these governing documents. This action clarifies that the scope is not arbitrary but is based on the IAA's formal mandate and an approved, risk-based plan, thereby reinforcing the IAA's authority and objectivity.

### Why Incorrect Options are Wrong:

- A. Terminating the engagement is an extreme reaction that abdicates the IAA's responsibility and fails to address the underlying dispute about its authority.
- B. Allowing the client to dictate or negotiate the scope compromises the IAA's independence and the integrity of the risk-based audit plan.
- D. Escalating to senior management or the board is a secondary step, to be taken only if the dispute cannot be resolved by referencing the charter and audit plan.

## References:

### 1. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards) 2017.

Standard 1000: Purpose

Authority

and Responsibility: "The purpose authority

and responsibility of the internal audit activity must be formally defined in an internal audit charter... The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval." This standard establishes the charter as the foundational document defining the IAA's scope and authority.

Standard 2010: Planning: "The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity

consistent with the organization's goals." The interpretation adds that this plan is submitted "to senior management and the board for review and approval." This confirms the audit plan is an approved document outlining specific engagement areas.

### 2. The Institute of Internal Auditors (IIA)

Implementation Guide 1000: Purpose

Authority

CertEmpire

and Responsibility

2017.

Section: "Communicating the Charter": The guide states

"The charter also serves as a formal agreement or 'contract' with management and the board...

The CAE should discuss the internal audit charter and the responsibilities of the internal audit activity with senior management and the board." This supports using the charter as the basis for discussion and clarification with stakeholders including engagement clients.

## Question: 31

This chief audit executive (CAE) engaged an internal auditor to consult on an organization's complex information technology system. Shortly after beginning the engagement, the auditor unexpectedly resigned. Unfortunately, this auditor was the only available auditor with the necessary expertise. The CAE will not be able to hire someone with similar expertise in time to meet a regulatory deadline. Which of the following would be the best course of action for the CAE to take?

- A. Continue with the engagement in order to meet the regulatory deadline, but highlight areas in the final report that might need to be revised in the future.
- B. Ask that a senior member of the organization's IT department with the required systems expertise join the audit team to assist in completing the engagement.
- C. Delay the engagement and inform the board of the situation, asking them to provide acceptable alternatives for completing the engagement.
- D. Remove the planned engagement from the audit plan and explain to senior management the problems with moving forward without an auditor with the necessary expertise.

### Answer:

C

### Explanation:

The chief audit executive (CAE) is responsible for managing the internal audit activity and ensuring it has sufficient resources to fulfill its responsibilities. When a critical resource limitation arises, especially one that jeopardizes a regulatory deadline, the CAE must communicate this issue to senior management and the board. This action aligns with IIA Standard 2060, which requires the CAE to report on the performance of the audit plan and any significant issues, including resource constraints. By informing the board and asking for alternatives, the CAE upholds professional responsibility, ensures transparency, and allows governance bodies to make an informed decision on how to manage the associated risk.

### Why Incorrect Options are Wrong:

- A. Continuing the engagement without the necessary expertise violates IIA Standard 1210 (Proficiency) and 1220 (Due Professional Care), as the results would be unreliable and unprofessional.
- B. Using a member of the IT department would create a conflict of interest and impair objectivity, which is a direct violation of IIA Standard 1120 (Individual Objectivity).

D. Simply removing the engagement from the plan is an inadequate response to a regulatory requirement. The board must be informed of such a significant risk and resource gap.

## References:

1. The Institute of Internal Auditors (IIA). (2017). International Standards for the Professional Practice of Internal Auditing.

Standard 2060 - Reporting to Senior Management and the Board: "The chief audit executive must report periodically to senior management and the board on the internal audit activity's...performance relative to its plan...Reporting must also include significant risk and control issues...and other matters that require the attention of senior management and/or the board." A significant resource impairment affecting a regulatory deadline qualifies as such a matter.

Standard 1210 - Proficiency: "The internal audit activity must collectively possess or obtain the knowledge skills

and other competencies needed to perform its responsibilities." Proceeding without the expert violates this standard.

Standard 1120 - Individual Objectivity: "Internal auditors must have an impartial unbiased attitude and avoid any conflict of interest." Assigning an IT department member to audit their own area violates this standard.

2. The Institute of Internal Auditors (IIA). (2017). Implementation Guide 2060: Reporting to Senior Management and the Board. CertEmpire

Paragraph on "Performance relative to its plan": This guide clarifies that the CAE should communicate "instances in which the internal audit activity is unable to complete the internal audit plan as a result of a lack of resources or other limitations." This directly supports informing the board about the inability to complete the engagement due to the auditor's resignation.

## Question: 32

A candidate has applied for an entry level internal audit position. The candidate holds a CISA (Certified Information Systems Auditor) designation, and has six months of audit experience, but limited knowledge of accounting principles and techniques. According to the IIA guidance, which of the following is the most relevant reason for the chief audit executive to consider this candidate?

- A. Other internal auditors possess sufficient knowledge of accounting principles and techniques.
- B. The candidate's information systems knowledge and real-world experience in internal auditing.
- C. Accounting skills can be learned over time with appropriate training.
- D. An entry level position does not require expertise in any particular area.

### Answer:

A

### Explanation:

According to IIA Standard 1210 - Proficiency, the internal audit activity must collectively possess the knowledge and skills needed to perform its responsibilities. The Chief Audit Executive (CAE) is responsible for ensuring this collective competence. While the candidate has a weakness in accounting, they bring valuable and certified information systems (IS) audit skills (CISA). The most relevant strategic reason for the CAE to consider this candidate is that the existing team can compensate for the candidate's specific weakness, while the candidate, in turn, fills a potential or existing gap in IS audit skills. This approach ensures the team as a whole is proficient and well-rounded.

### Why Incorrect Options are Wrong:

B. The candidate's information systems knowledge and real-world experience in internal auditing. While these are the candidate's strengths, the reason this is a viable option for the CAE despite a key weakness is that the team's collective knowledge mitigates the risk of that weakness. Option A provides the more complete, strategic context for the hiring decision.

C. Accounting skills can be learned over time with appropriate training.

This is a general statement about professional development (Standard 1230) but is not the most relevant reason for hiring this specific candidate now. The immediate need is to ensure the team's overall competency is maintained.

D. An entry level position does not require expertise in any particular area.

This is incorrect. All internal audit positions require specific competencies, as outlined in the IIA's Global Internal Audit Competency Framework. While expertise levels vary, foundational knowledge is necessary.

## References:

### 1. The IIA

International Standards for the Professional Practice of Internal Auditing (Standards)  
2017.

Standard 1210 - Proficiency: "Internal auditors must possess the knowledge  
skills

and other competencies needed to perform their individual responsibilities. The internal audit  
activity must collectively possess or obtain the knowledge  
skills

and other competencies needed to perform its responsibilities." This directly supports the  
rationale that the team's collective skills are a primary consideration for the CAE.

### 2. The IIA

Implementation Guidance for Standard 1210: Proficiency  
2017.

Paragraph on 1210: "The internal audit activity team needs to have the right mix of competencies  
for the organization's needs... The CAE is responsible for ensuring that the team of internal  
auditors has the right skills and competencies collectively to perform the work." This reinforces  
that the CAE's decision is based on the team's overall skill mix  
making option A the most relevant reason.

### 3. The IIA

CertEmpire

Global Internal Audit Competency Framework  
2013.

Domain IV: Technical Expertise: This domain outlines the need for specific knowledge areas  
including Information Technology. The framework is used by CAEs for "recruiting and hiring  
internal auditors" and "developing a training plan for an internal audit activity." It highlights the  
importance of balancing skills across a team  
which aligns with the reasoning in option A.

## Question: 33

Which of the following decisions made during the testing phase of a compliance audit requires the most judgment by an internal auditor?

- A. Which sampling methodology to select for testing.
- B. Which fields to examine on each invoice.
- C. Whether an individual expenditure is allowable.
- D. What level of noncompliance is acceptable.

### Answer:

D

### Explanation:

Determining an acceptable level of noncompliance requires the highest degree of professional judgment. This decision, often related to setting the tolerable deviation rate or materiality, directly influences the audit's conclusion. The auditor must consider the organization's risk appetite, the nature and context of the compliance requirement, and the potential impact of noncompliance. Unlike other options which are more procedural or rule-based, this judgment synthesizes various factors to assess the overall significance of findings and determines whether a control is failing or if compliance objectives are not being met. This high-level evaluation has the most significant bearing on the final audit opinion and reported outcomes.

### Why Incorrect Options are Wrong:

A. Which sampling methodology to select for testing.

This is a technical decision guided by audit standards and the characteristics of the population, making it less subjective than determining overall materiality.

B. Which fields to examine on each invoice.

This is a procedural decision directly derived from the audit objectives and the specific compliance criteria being tested, requiring minimal subjective judgment.

C. Whether an individual expenditure is allowable.

This involves applying predefined rules and criteria to a specific transaction. While some interpretation may be needed, it is a micro-level judgment.

### References:

1. The Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF). (2017). Standard 2320: Analysis and Evaluation. "Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations." The associated Implementation Guide emphasizes that professional judgment is critical in evaluating the significance of any noncompliance identified

which directly relates to determining an acceptable level.

2. The Institute of Internal Auditors (IIA). (2017). Practice Guide: Audit Sampling. Page 11  
Section "Determine the Tolerable Deviation Rate." The guide states

"The determination of the tolerable deviation rate is a matter of professional judgment for the internal auditor to make after discussions with management." This highlights that setting the acceptance threshold is a primary area for auditor judgment.

3. Gramling

A. A.

Rittenberg

L. E.

& Johnstone

K. M. (2012). Auditing. Cengage Learning. In discussions on audit evidence and testing university-level auditing textbooks consistently describe the determination of tolerable misstatement or tolerable deviation rate as a critical area requiring significant professional judgment

linking it directly to the auditor's assessment of materiality for the engagement. (Refer to chapters on audit sampling and materiality).

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## Question: 34

According to the Standards, which of the following is not a consideration when exercising due professional care for an assurance engagement?

- A. The relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- B. The extent of assurance services necessary to ensure that all risks are identified.
- C. The cost of providing the assurance services in relation to potential benefits.
- D. The probability of significant errors, irregularities or instances of noncompliance.

### Answer:

B

### Explanation:

According to IIA Standard 1220: Due Professional Care, internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. However, this standard explicitly states that "due professional care does not imply infallibility." The concept of ensuring that all risks are identified suggests a level of absolute assurance that is impossible to achieve in practice. Internal audit provides reasonable, not absolute, assurance. The other options are all specific considerations mentioned within the implementation guidance for exercising due professional care.

### Why Incorrect Options are Wrong:

- A. This is a required consideration. Standard 1220.A1 explicitly states auditors must consider the relative complexity, materiality, or significance of matters.
- C. This is a required consideration. Standard 1220.A1 requires auditors to consider the cost of assurance in relation to potential benefits.
- D. This is a required consideration. Standard 1220.A1 directs auditors to consider the probability of significant errors, fraud, or noncompliance.

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### References:

1. The Institute of Internal Auditors (IIA)

International Standards for the Professional Practice of Internal Auditing (Standards) 2017.

Standard 1220: Due Professional Care: "Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility."

Standard 1220.A1: "Internal auditors must exercise due professional care by considering the:  
...Relative complexity  
materiality  
or significance of matters to which assurance procedures are applied; ...Probability of significant errors  
fraud  
or noncompliance; and Cost of assurance in relation to potential benefits." (This directly supports that A  
C  
and D are correct considerations  
making B the exception).

## 2. The Institute of Internal Auditors (IIA)

Implementation Guide 1220: Due Professional Care  
July 2020.

Paragraph 1: "Exercising due professional care means that the internal auditor applies the care and skill of a reasonably prudent and competent internal auditor... It does not  
however  
mean that the internal auditor is infallible or that the internal auditor is expected to provide absolute assurance." (This reinforces that guaranteeing the identification of all risks  
as suggested in option B  
is beyond the scope of due professional care).

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## Question: 35

According to IIA guidance, which of the following statements is false regarding continuing professional education for the internal audit activity (IAA)?

- A. Continuing professional education can be obtained through IAA involvement in research projects.
- B. Employers are responsible for ensuring that the continuing professional education needs of the IAA are met.
- C. Completion of self-study courses fulfills IAA continuing professional education requirements.
- D. Specialized education that meets unique organizational needs cannot qualify as IAA professional development.

### Answer:

D

### Explanation:

According to IIA guidance, internal auditors must possess the knowledge and skills needed to perform their responsibilities (Standard 1210). Continuing professional education (CPE) must be relevant to maintaining this proficiency. Specialized education that addresses unique organizational needs, such as industry-specific regulations or complex IT systems, is often the most critical type of professional development for an internal auditor. Stating that such essential, relevant education "cannot qualify" is fundamentally incorrect and contradicts the core principle of ensuring the internal audit activity is competent to serve the organization. Therefore, this statement is false.

### Why Incorrect Options are Wrong:

- A. This is a true statement. The IIA's Continuing Professional Education (CPE) Policy allows for a variety of educational activities, including participation in research projects that contribute to the knowledge base of the internal audit profession.
- B. This is a true statement from a governance perspective. While individual auditors are responsible for completing CPE (Standard 1230), the employer (via senior management and the board) is ultimately responsible for ensuring the internal audit activity is properly resourced (Standard 2030) and competent, which includes meeting its professional development needs.
- C. This is a true