

IIA

Exam Questions IIA-CHAL-QISA

Qualified Info Systems Auditor CIA Challenge Exam



NEW QUESTION 1

Which of the following processes does the board manage to ensure adequate governance?

- A. Establish and measure performance objectives for the internal audit activity
- B. Select board members with necessary knowledge and skills.
- C. Develop, approve, and execute the strategic plan of the organization
- D. Develop strategies to mitigate the risks to achieving the organization's objectives

Answer: C

Explanation:

The board manages several key processes to ensure adequate governance within an organization, one of which is the development, approval, and execution of the strategic plan. This process is critical because it defines the organization's direction, goals, and the actions required to achieve these goals.

? Strategic Planning: The board plays a pivotal role in setting the organization's strategic direction, which includes establishing long-term goals and defining the means to achieve them.

? Performance Measurement: While the board may establish and measure performance objectives for the internal audit activity, this is part of a broader governance framework.

? Risk Management: The board also develops strategies to mitigate risks, ensuring that the organization can achieve its objectives effectively. Thus, the most comprehensive governance-related process managed by the board involves strategic planning

NEW QUESTION 2

Which of the following activities demonstrates an example of the chief audit executive performing residual risk assessment?

- A. Cost-benefit analysis of management not implementing a recommendation to address an observation.
- B. Inquiry of corrective action to be completed within a certain period
- C. Reporting the status of every observation for every engagement in a detailed manner.
- D. Soliciting management's feedback after completion of the audit engagement.

Answer: A

Explanation:

Performing a cost-benefit analysis when management decides not to implement a recommendation is a prime example of residual risk assessment. This involves evaluating the potential impacts and remaining risks associated with the decision, thereby determining the residual risk that the organization will continue to face.

? Cost-Benefit Analysis: This helps in understanding the financial implications and benefits that would have been realized had the recommendation been implemented versus the risks of not implementing it.

? Risk Assessment: By assessing the residual risk, the CAE can provide a clearer picture of the ongoing risks that the organization needs to manage.

? Management Decision Impact: This analysis assists in making informed decisions and understanding the trade-offs involved in addressing audit observations.

References:

? "Audit and Assurance Services: An Integrated Approach," which explains residual risk assessment and the importance of cost-benefit analysis in audit recommendations .

NEW QUESTION 3

According to IIA guidance, which of the following steps should precede the development of audit engagement objectives?

- A. Identification of controls.
- B. Scope establishment.
- C. Risk assessment.
- D. Review of resources.

Answer: C

Explanation:

? Risk Assessment: Before developing audit engagement objectives, a thorough risk assessment should be conducted. This step helps identify and prioritize the areas of highest risk, ensuring that the audit focuses on the most critical issues.

? Establishing Objectives: The results of the risk assessment guide the development of specific, relevant, and focused audit objectives. This ensures that the engagement addresses key risk areas and adds value to the organization.

? Sequential Steps: Identification of controls, scope establishment, and review of resources are important steps but typically follow the initial risk assessment to ensure the audit is aligned with the organization's risk profile.

: IIA Standard 2200 - Engagement Planning.

NEW QUESTION 4

Applying ISO 31000; which of the following is part of the external context for risk management?

- A. Risk treatment method based on risk evaluation.
- B. Organizational culture, objectives, and processes.
- C. The regulatory and competitive environment.
- D. The method of determining the risk level

Answer: C

Explanation:

? ISO 31000 Context:ISO 31000 provides guidelines on risk management, emphasizing the importance of understanding the external context.

? External Context:This includes external factors such as regulatory and competitive environments that can impact the organization's risk profile.

? Regulatory Environment:Understanding regulations helps the organization ensure compliance and avoid legal risks.

? Competitive Environment:Analyzing the competitive environment allows the organization to anticipate market changes and manage competitive risks.

References:

? ISO 31000 Risk Management Guidelines.

NEW QUESTION 5

With regard to project management, which of the following statements about project crashing is true?

- A. It leads to an increase in risk and often results in rework.
- B. It is an optimization technique where activities are performed in parallel rather than sequentially
- C. It involves a revaluation of project requirements and/or scope.
- D. It is a compression technique in which resources are added to the project

Answer: D

Explanation:

Project crashing is a schedule compression technique used in project management to shorten the project duration without changing the project scope. It involves adding additional resources to critical path activities to complete them faster. This method can lead to increased costs but aims to reduce the project timeline effectively. Crashing is often used when project deadlines are tight and time is more critical than budget.

: Project Management Institute (PMI) defines project crashing as a technique used to shorten the schedule duration for the least incremental cost by adding resources. This is detailed in the PMBOK Guide (Project Management Body of Knowledge).

NEW QUESTION 6

An accounts payable clerk has recently transferred into the internal audit activity and has been assigned to an engagement related to accounts payable processes for which he was previously responsible Which of the following is the best action for the new internal auditor to take?

- A. If it is an assurance engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value
- B. If it is a consulting engagement, decline the assignment and ask to be reassigned, because in a consulting engagement the auditor must not assess operations for areas in which they were previously responsible.
- C. if it is a consulting engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value
- D. If it is an assurance engagement, accept the assignment because the chief audit executive had knowledge of the internal auditor's previous role when this engagement was assigned.

Answer: B

Explanation:

? Conflict of Interest: For both assurance and consulting engagements, it is crucial to avoid conflicts of interest. An auditor assessing processes they were previously responsible for can compromise objectivity and independence.

? IIA Standards: The IIA's Code of Ethics and standards emphasize maintaining objectivity and avoiding conflicts of interest. This is particularly important in consulting engagements where the auditor's recommendations could be influenced by prior roles.

? Appropriate Action:

: IIA Standard 1130 - Impairment to Independence or Objectivity.

NEW QUESTION 7

A corporate merger decision prompts the chief audit executive (CAE) to propose interim changes to the existing annual audit plan to account for emerging risks Which of the following is the most appropriate action for the CAE to take regarding the changes made to the audit plan?

- A. Present the revised audit plan directly to the board for approval
- B. Communicate with the chief financial officer and present the revised audit plan to the CEO for approval.
- C. Present the revised audit plan directly to the CEO for approval.
- D. Communicate with the CEO and present the revised audit plan to the board for approval

Answer: D

Explanation:

Role of the CAE: The Chief Audit Executive (CAE) is responsible for developing a risk-based audit plan and ensuring it is aligned with the organization's goals and emerging risks. Significant changes to the audit plan must be communicated appropriately within the organization.

IIA Standards:

? Standard 2020 – Communication and Approval: The CAE must communicate the internal audit plan and resource requirements, including significant interim changes, to senior management and the board for review and approval.

? Risk Assessment: Any changes to the audit plan due to emerging risks, such as a corporate merger, must be documented and approved at the highest levels to ensure comprehensive risk coverage.

Most Appropriate Action:

? Communication with the CEO: The CAE should first discuss the revised audit plan with the CEO to ensure alignment with executive management's perspective on emerging risks.

? Board Approval: After discussing with the CEO, the CAE should present the revised audit plan to the board for formal approval, ensuring transparency and governance.

References:

? Presenting the revised audit plan to the board after discussing with the CEO ensures that all relevant stakeholders are informed and that the revised plan is formally approved, maintaining alignment with IIA standards.

NEW QUESTION 8

Which of the following is a true statement regarding whistleblowing?

- A. Whistleblowing is one of several possible ethical structures an organization can undertake to encourage ethical behavior.
- B. Whistleblowing programs help employees deal with ethical questions and instill ethical values into everyday behavior
- C. Whistleblowers are current or former employees who are disgruntled and looking to retaliate.
- D. Whistleblowers should inform the organization about actual criminal circumstances, not assumed allegations.

Answer: A

Explanation:

? Purpose of Whistleblowing: Whistleblowing is a mechanism that allows employees to report unethical or illegal activities within the organization. It is a vital part of an organization's ethical framework, providing a structured way for concerns to be raised and addressed.

Reference: IIA's Practice Guide on Whistleblowing Programs.

Encouraging Ethical Behavior: By having a whistleblowing program, an organization encourages employees to come forward with concerns, which helps in maintaining ethical standards and preventing misconduct.

Practical Example: Employees who notice financial discrepancies can report these through the whistleblowing system without fear of retaliation, supporting a culture of transparency and accountability.

Other Options Considered:

Option B: While whistleblowing programs can support ethical behavior, they are primarily designed for reporting issues rather than instilling values.

Option C: This is a misconception; whistleblowers often report genuine concerns rather than acting out of retaliation.

Option D: Whistleblowers can report suspected unethical or illegal activities, which may not always be criminal but are still significant for organizational integrity.

Conclusion: The correct answer is A, as whistleblowing is one of several ethical structures that organizations can adopt to encourage reporting of unethical behavior and maintain high ethical standards.

NEW QUESTION 9

Which of the following should be included in a company's year-end inventory valuation?

- A. Company goods that were sold during the year, free on board shipping point, that have been shipped but not yet received by the customer
- B. Goods purchased by the company, free on board destination, that have not yet been received.
- C. Goods on consignment, which the company is trying to sell for its customers.
- D. Company goods for sale on consignment at a consignment shop

Answer: D

Explanation:

Year-end inventory valuation should include all goods owned by the company, regardless of their location. This includes goods for sale on consignment at a consignment shop, as these items remain the property of the company until sold. Goods sold FOB shipping point and goods purchased FOB destination that have not yet been received are not included, as ownership has transferred or not yet been acquired respectively. Goods on consignment that the company is trying to sell for others are also excluded because the company does not own them

NEW QUESTION 10

According to IIA guidance, which of the following corporate social responsibility (CSR) evaluation activities may be performed by the internal audit activity?

* 1. Consult on CSR program design and implementation

* 2. Serve as an advisor on CSR governance and risk management. 3. Review third parties for contractual compliance with CSR terms 4. Identify and mitigate risks to help meet the CSR program objectives

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

Answer: B

Explanation:

According to the Institute of Internal Auditors (IIA) guidance, internal audit activities can encompass several aspects of evaluating corporate social responsibility (CSR) programs.

? Consulting on Design and Implementation: Internal auditors can provide valuable insights into the design and implementation of CSR programs to ensure they are well-structured and aligned with organizational objectives.

? Advising on Governance and Risk Management: Serving as advisors, internal auditors can help in establishing effective governance structures and identifying and managing risks associated with CSR initiatives.

? Mitigating Risks: By identifying and mitigating risks, internal auditors support the achievement of CSR program objectives, ensuring these initiatives are both effective and sustainable.

? Reviewing Third Parties: While internal auditors may review third parties for contractual compliance with CSR terms, this activity is more often part of broader compliance audits rather than a specific focus area for CSR evaluations.

References:

? "IIA Practice Guide: Auditing Corporate Social Responsibility," which outlines the role of internal auditors in CSR-related activities.

NEW QUESTION 10

Which of the following is most likely to impair the organizational independence of the internal audit activity?

- A. The chief audit executive (CAE) reports administratively to the chief financial officer
- B. The CAE oversees the effectiveness of the organization's risk management function.
- C. The CAE reports functionally to the CEO.
- D. The CAE managed the finance department for the past five years.

Answer: D

Explanation:

? Impairment of Independence: The organizational independence of the internal audit activity can be impaired if the CAE has had significant roles in management, such as managing the finance department. This prior involvement may create a conflict of interest or perceived bias.

? IIA Standards on Independence: The IIA emphasizes the importance of independence and objectivity in internal auditing. Any prior management role, especially in the department being audited, can compromise the CAE's objectivity.

? Examples of Impairment:

: IIA Standard 1100 - Independence and Objectivity.

NEW QUESTION 11

Which of the following statements is true regarding engagement planning?

- A. The scope of the engagement should be planned according to the internal audit activity's budget and then aligned to the risk universe.
- B. The audit engagement objectives should be based on operational management's view of risk objectives
- C. The planning phase of the engagement should be completed and approved before the fieldwork of the engagement begins.
- D. The main purpose of the engagement work program is to determine the nature and timing of procedures required to gather audit evidence

Answer: C

Explanation:

Proper engagement planning is essential to ensure that the internal audit engagement is conducted effectively and efficiently.

Completing and approving the planning phase before starting the fieldwork ensures that all objectives, scope, resources, and methodologies are well-defined and agreed upon.

This preparation helps in aligning the engagement with the overall audit strategy and reduces the risk of scope changes or misalignments during fieldwork

NEW QUESTION 14

According to IIA guidance, which of the following statements about analytical procedures is true?

- A. Analytical procedures compare information against expectations
- B. Analytical procedures begin after the engagement's planning phase.
- C. Analytical procedures provide internal auditors with explainable results.
- D. Analytical procedures are computer-assisted audit techniques

Answer: A

Explanation:

Analytical Procedures: These procedures involve evaluating financial information by studying plausible relationships among both financial and non-financial data. They help auditors form expectations about account balances or other financial data and then compare actual results to these expectations.

? **Purpose:** To identify any unusual or unexpected results that might indicate potential misstatements.

IIA Guidance on Analytical Procedures:

? **Comparison Against Expectations:** This is the core aspect of analytical procedures. Auditors develop expectations based on their knowledge of the business, industry trends, historical data, and other relevant factors.

? **Engagement Phases:** Analytical procedures can be applied in various phases of an audit, not just after the planning phase.

Other Statements:

? **Begin After Planning:** Analytical procedures are often used during planning to understand the business and during substantive testing and review phases.

? **Explainable Results:** While they can provide insights, the primary purpose is not just to explain results but to identify discrepancies.

? **Computer-Assisted Techniques:** Analytical procedures can be performed manually or with the help of software, but they are not solely defined as computer-assisted techniques.

NEW QUESTION 17

A bicycle manufacturer incurs a combination of fixed and variable costs with the production of each bicycle. Which of the following statements is true regarding these costs?

- A. If the number of bicycles produced is increased by 15 percent, the variable cost per unit will increase proportionally
- B. The fixed cost per unit will vary directly based on the number of bicycles produced during the production cycle.
- C. The total variable cost will vary proportionally and inversely with the number of bicycles produced during a production run.
- D. If the number of bicycles produced is increased by 30 percent, the fixed cost per unit will decline.

Answer: D

Explanation:

? **Introduction:**

? **Cost Characteristics:**

? **Options Analysis:**

? **Conclusion:**

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Cost Accounting Standards and Practices .

NEW QUESTION 20

While auditing an organization's credit approval process, an internal auditor learns that the organization has made a large loan to another auditor's relative. Which course of action should the auditor take?

- A. Proceed with the audit engagement, but do not include the relative's information.
- B. Have the chief audit executive and management determine whether the auditor should continue with the audit engagement.
- C. Disclose in the engagement final communication that the relative is a customer
- D. Immediately withdraw from the audit engagement

Answer: B

Explanation:

? **Identify the Conflict of Interest:** The internal auditor learns about a large loan made to another auditor's relative, which represents a conflict of interest.

? **Refer to Professional Standards:** According to the Institute of Internal Auditors' (IIA) standards, an internal auditor must maintain objectivity and avoid conflicts of interest (IIA Standard 1100 – Independence and Objectivity).

? **Escalate the Issue:** The appropriate course of action is to escalate this matter to the chief audit executive (CAE) and management, as they are responsible for determining the impact of the conflict and the appropriate response.

? **Decision Making:** The CAE and management will assess whether the conflict of interest could impair the auditor's objectivity and decide whether the auditor should be removed from the engagement or if additional oversight is needed.

? **Documentation:** It is important to document the conflict and the decision-making process in the audit documentation for transparency and accountability.

References:

? **The IIA's International Standards for the Professional Practice of Internal Auditing**, specifically Standard 1100 on Independence and Objectivity.

NEW QUESTION 22

Which of the following activities would an internal auditor perform as a consulting engagement for an organization?

- A. Advising new internal auditors working for the organization on how to develop strategies on planning audits for the upcoming fiscal year
- B. Assessing whether the organization's corporate social responsibility program is meeting its yearly goals to reduce carbon emissions.
- C. Briefing the organization's department managers on how to implement risk management processes into their daily operations.
- D. Communicating with senior management to better understand how new purchasing controls will minimize payment processing time

Answer: C

Explanation:

? Consulting Engagements: Consulting engagements are advisory in nature and are intended to add value and improve an organization's governance, risk management, and control processes.

? Role of Internal Auditor: In a consulting role, an internal auditor provides advice, facilitates risk management, and helps enhance the efficiency and effectiveness of operations.

? Briefing Managers: By briefing department managers on how to implement risk management processes into their daily operations, the internal auditor is providing valuable advice that can help improve the organization's risk management framework.

? IIA Standards: The IIA's standards emphasize that consulting activities should aim at improving governance, risk management, and control processes without taking on management responsibilities.

References:

? IIA Standard 2010 – Planning .

NEW QUESTION 23

An internal auditor has discovered that duplicate payments were made to one vendor. Management has recouped the duplicate payments as a corrective action. Which of the following describes management's action in this case?

- A. A condition-based action plan
- B. A cause-based action plan.
- C. A root cause-based action plan.
- D. An effect-based action plan.

Answer: D

Explanation:

? Introduction:

? Types of Action Plans:

? Options Analysis:

? Conclusion:

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Internal Audit Standards and Practice Guides .

NEW QUESTION 25

When is an organic organizational structure likely to be more successful than a mechanistic organizational structure?

- A. When a manufacturing organization has stable demand for its products.
- B. When an organization is subjected to strong political and social pressures
- C. When a manufacturer has reliable resources and suppliers.
- D. When an organization is infrequently affected by technological advances

Answer: B

Explanation:

An organic organizational structure is more flexible and adaptive compared to a mechanistic structure. It is characterized by less formalization, decentralized decision-making, and a greater reliance on lateral communication. This type of structure is beneficial in environments that are dynamic and uncertain, such as when an organization faces strong political and social pressures. The flexibility of an organic structure allows the organization to respond more effectively to external changes and pressures.

: This concept is supported by organizational theory literature, which suggests that organic structures are better suited for turbulent and changing environments where quick adaptation is necessary.

NEW QUESTION 26

According to IIA guidance, which of the following practices by the chief audit executive (CAE) best enhances the organizational independence of the internal audit activity?

- A. CAE reviews and approves the annual audit plan.
- B. CAE meets privately with the CEO at least annually
- C. CAE meets privately with the board at least annually.
- D. CAE reports to the board regarding audit staff performance evaluation and compensation.

Answer: C

Explanation:

According to IIA guidance, one of the best practices for enhancing the organizational independence of the internal audit activity is for the chief audit executive (CAE) to meet privately with the board at least annually. This practice reinforces the independence of the internal audit function by ensuring direct and unfiltered communication with the board.

? Direct Communication: Private meetings with the board allow the CAE to discuss audit findings, concerns, and other important matters without management's influence, thereby preserving the objectivity and independence of the internal audit function.

? Board Support: This direct line of communication helps to secure the board's support for the internal audit activity, which is critical for its effective functioning.

? Independence: Such meetings underscore the independence of the internal audit activity from management, reinforcing its role in providing unbiased assurance.

References:

? "IIA Standards for the Professional Practice of Internal Auditing," which recommends private meetings between the CAE and the board to support independence

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NEW QUESTION 29

When using cost-volume-profit analysis, which of the following will increase operating income once the break-even point has been reached?

- A. Fixed costs per unit for each additional unit sold.
- B. Variable costs per unit for each additional unit sold.
- C. Contribution margin per unit for each additional unit sold.
- D. Gross margin per unit for each additional unit sold

Answer: C

Explanation:

Contribution Margin: Contribution margin is the amount by which the sales price of a product exceeds its variable costs. After reaching the break-even point, each additional unit sold contributes directly to operating income.

: Cost-volume-profit (CVP) analysis, which highlights the role of contribution margin in determining profitability.

Operating Income: At the break-even point, fixed costs are covered, so additional units sold increase operating income by the contribution margin per unit.

Fixed Costs: Fixed costs per unit (option A) do not change with additional units sold.

Variable Costs: Variable costs per unit (option B) remain constant and are deducted from sales price to calculate contribution margin.

Gross Margin: Gross margin per unit (option D) includes fixed costs and is less directly relevant than the contribution margin.

NEW QUESTION 32

Which of the following is an example of a directive control?

- A. Segregation of duties
- B. Exception reports
- C. Training programs,
- D. Supervisory review.

Answer: C

Explanation:

Directive controls are designed to encourage desired behavior or outcomes.

? Option A: Segregation of duties is a preventive control, not a directive control.

? Option B: Exception reports are detective controls.

? Option D: Supervisory review is also a preventive or detective control.

? Option C: Training programs are directive controls as they guide employees on the correct procedures and practices to follow.

NEW QUESTION 36

Which of the following is essential for ensuring that the internal audit activity's findings and recommendations receive adequate consideration?

- A. Reporting results of audits with recommendations to management.
- B. Providing formal follow-up procedures to ensure that management complies with an action plan or accepted risk of not taking action.
- C. Reporting quarterly to management that the audit plan is focused on higher exposures of risk.
- D. Discussing audit findings with independent auditors.

Answer: B

Explanation:

? Ensuring Compliance: To ensure that audit findings and recommendations are addressed, formal follow-up procedures are necessary.

? Follow-up Procedures: These procedures involve tracking the implementation of recommendations and verifying that management has taken appropriate action or has accepted the risks of not acting.

? Reporting to Management: Regular reporting on the status of follow-up actions helps maintain accountability and transparency.

? Standard Requirement: This aligns with the IIA's Standard 2500 – Monitoring Progress, which requires internal audit activities to establish and maintain a system to monitor the disposition of results communicated to management.

References:

? The IIA's International Standards for the Professional Practice of Internal Auditing, specifically Standard 2500 on Monitoring Progress.

NEW QUESTION 41

According to IIA guidance, which of the following statements is true regarding audit workpapers?

- A. Review notes on audit workpapers must be retained to provide a record of questions raised by the reviewer.
- B. Audit workpaper documentation policies are reviewed and approved by the audit committee.
- C. Management of the department being audited should review the prepared workpapers for accuracy.
- D. Audit workpaper preparation contributes to the professional development of the internal audit staff.

Answer: D

Explanation:

Audit workpapers are essential documents that provide evidence of the audit work performed and the conclusions reached.

? Option A: While review notes can be useful, they do not need to be retained if they do not add value to the audit evidence.

? Option B: Audit workpaper documentation policies are typically established by the internal audit department, not reviewed or approved by the audit committee.

? Option C: Management should not review the workpapers for accuracy as this could compromise the independence of the audit.

? Option D: Preparing workpapers helps auditors document their work thoroughly, facilitating learning and professional development.

NEW QUESTION 44

According to IIA guidance, which of the following activities are typically primary objectives of engagement supervision?

- A. Enable training and development of staff, identify engagement objectives, and assign responsibilities to individual auditors.
- B. Identify engagement objectives, assign responsibilities to individual auditors, and approve the engagement program.
- C. Assign responsibilities to individual auditors, approve the engagement program, and enable training and development of staff.
- D. Approve the engagement program, enable training and development of staff, and identify engagement objectives

Answer: C

Explanation:

Engagement Supervision Objectives:

? Assign Responsibilities: Supervisors must clearly assign tasks and responsibilities to individual auditors to ensure clarity and accountability during the engagement.

? Approve Engagement Program: The supervisor is responsible for reviewing and approving the engagement program, ensuring that it aligns with the engagement objectives and internal audit standards.

? Training and Development: Supervision also involves mentoring and developing audit staff, providing guidance and feedback to enhance their skills and performance.

IIA Standards:

? Standard 2340 – Engagement Supervision: Internal audit engagements must be properly supervised to ensure objectives are achieved, quality is maintained, and staff are developed.

Primary Objectives:

? Clarity and Accountability: Assigning responsibilities ensures that each auditor knows their role and tasks.

? Quality and Compliance: Approving the engagement program ensures that the audit plan is robust and compliant with standards.

? Professional Development: Enabling training and development helps build a competent and skilled audit team.

References:

? Effective engagement supervision involves assigning responsibilities, approving the engagement program, and facilitating training and development, ensuring a successful audit engagement and continuous staff improvement.

NEW QUESTION 46

An organization invests excess short-term cash in trading securities Which of the following actions should an internal auditor take to test the valuation of those securities*

- A. Use the equity method to recalculate the investment carrying value
- B. Confirm the securities held by the broker.
- C. Perform a calculation of premium or discount amortization.
- D. Compare the carrying value with current market quotations

Answer: D

Explanation:

? Testing Valuation: The valuation of trading securities requires comparing their carrying value with current market prices to ensure accuracy.

? Market Quotations: Current market quotations provide the most reliable and up-to-date information on the fair value of securities.

? Accounting Standards: This approach is consistent with accounting standards that require securities to be reported at fair value, reflecting any unrealized gains or losses.

? Verification Process: Comparing the carrying value with market quotations helps verify that the securities are appropriately valued on the financial statements.

References:

? International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) regarding fair value measurement.

NEW QUESTION 50

Which of the following offers the best evidence that the internal audit activity has achieved organizational independence?

- A. An independent third party has assessed the organization's system of internal controls to be adequate and effective.
- B. The chief audit executive reports both functionally and administratively to the CEO
- C. The internal audit charter is drafted properly and approved by the appropriate parties.
- D. The mission statement and strategy of the internal audit activity demonstrates alignment to organizational objectives

Answer: C

Explanation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. It is crucial for establishing the internal audit function's independence and objectivity. When the internal audit charter is properly drafted and approved by the appropriate parties, it provides a clear mandate for the internal audit activity and sets the foundation for its operations. This ensures that the internal audit activity can function independently without undue influence from management.

: According to the IIA's International Standards for the Professional Practice of Internal

Auditing (Standards), specifically Standard 1000 (Purpose, Authority, and Responsibility), the internal audit charter is essential in defining the internal audit activity's role and ensuring its independence.

NEW QUESTION 54

Which of the following best demonstrates internal auditors performing their work with proficiency?

- A. internal auditors meet with operational management at each phase of the audit process.
- B. Internal auditors adhere to The IIA's Code of Ethics.
- C. Internal auditors work collaboratively with their engagement team.
- D. Internal auditors complete a program of continuing professional development.

Answer: D

Explanation:

Proficiency in internal auditing is not only about technical skills but also involves continuous education and staying updated with the latest practices and standards in the field.

Option D reflects the commitment to ongoing professional development, ensuring that internal auditors maintain and enhance their proficiency over time.

The Institute of Internal Auditors (IIA) emphasizes the importance of continuing professional development as a means to ensure auditors remain competent in their roles

NEW QUESTION 56

Operational management In the IT department has developed key performance indicator reports, which are reviewed in detail during monthly staff meetings. This activity is designed to prevent which of the following conditions?

- A. Knowledge/skills gap.
- B. Monitoring gap.
- C. Accountability reward failure
- D. Communication failure

Answer: B

Explanation:

Key performance indicator (KPI) reports are essential tools for tracking and evaluating the performance of various processes and activities within an organization. By reviewing these reports in detail during monthly staff meetings, operational management in the IT department aims to identify any discrepancies or issues promptly. This continuous monitoring helps to prevent a "monitoring gap," which is the failure to adequately oversee and assess operations, potentially leading to undetected problems or inefficiencies

NEW QUESTION 59

While reviewing the workpapers and draft report from an audit engagement, the chief audit executive (CAE) found that an Important compensating control had not been considered adequately by the audit team when it reported a major control weakness Therefore, the CAE returned the documentation to the auditor in charge for correction Based on this Information, which of the following sections of the workpapers most likely would require changes?

- * 1.Effect of the control weakness.
- * 2.Cause of the control weakness
- * 3.Conclusion on the control weakness.
- * 4.Recommendation for the control weakness.

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

Answer: C

Explanation:

? Introduction:

? Impact on Workpapers:

? Options Analysis:

? Conclusion:

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Internal Audit Standards and Practice Guides

NEW QUESTION 64

According to Maslow's hierarchy of needs theory, which of the following best describes a strategy where a manager offers an assignment to a subordinate specifically to support his professional growth and future advancement^

- A. Esteem by colleagues.
- B. Self-fulfillment.
- C. Sense of belonging in the organization
- D. Job security.

Answer: B

Explanation:

According to Maslow's hierarchy of needs theory, self-fulfillment or self-actualization represents the highest level of human motivation, where an individual seeks to achieve personal growth, professional development, and realization of their potential. Offering an assignment to a subordinate to support their professional growth and future advancement aligns with this concept, as it helps the individual achieve a sense of self-fulfillment.

Reference: Maslow's Hierarchy of Needs Theory

NEW QUESTION 67

The internal audit activity is asked to review the effectiveness of controls around the disposal of chemical waste. However, the internal auditors on staff lack the necessary skills to conduct this review Which of the following would be the most appropriate approach?

- A. An internal auditor who recently attended a three-day workshop on chemical waste disposal, and therefore has the most knowledge on the topic, should lead the engagement.
- B. A team of available internal auditors should be assembled and should consult with an external nonaudit expert on chemical waste disposal to plan and conduct the engagement.
- C. A team of the most knowledgeable auditors could be assembled and use the engagement work program from the previous year to gather additional insight regarding recommended audit procedures
- D. A nonaudit employee from the chemical disposal area may share his expertise with the audit team, provided the internal audit manager conducts a detailed review of all engagement work performed.

Answer: B

Explanation:

? Skill Gap Identification: Internal auditors lack the necessary expertise in chemical waste disposal.

? Consulting Experts: Engaging an external nonaudit expert ensures that the internal audit team receives the necessary technical knowledge to conduct an effective review.

? Team Assembly: By assembling a team of internal auditors and consulting an external expert, the organization leverages both internal audit capabilities and external technical expertise.

? Ensuring Competence: This approach ensures that the internal audit activity complies with the IIA Standards, specifically Standard 1210 – Proficiency, which requires internal auditors to possess the knowledge, skills, and other competencies needed to perform their responsibilities.

References:

? IIA Standard 1210 – Proficiency .

NEW QUESTION 68

Management would like to self-assess the overall effectiveness of the controls in place for its 200-person manufacturing department. Which of the following client-facilitated approaches is likely to be the most efficient way to accomplish this objective?

- A. Workshops.
- B. Surveys.
- C. Interviews.
- D. Observation.

Answer: B

Explanation:

Self-assessment of controls can be efficiently conducted using various client-facilitated approaches. The choice of method depends on factors such as the size of the department, the nature of the controls, and the need for comprehensive feedback.

? Efficiency in Large Groups: Surveys are particularly effective for large groups (such as a 200-person department) as they allow for the collection of data from many individuals quickly and efficiently.

Reference: IIA Practice Guide on "Control Self-Assessment," which suggests using surveys for broad-based data collection when assessing control effectiveness across larger groups.

Standardized Feedback: Surveys provide standardized questions, ensuring consistent data collection and making it easier to analyze the responses.

Practical Example: A survey might include questions rating the effectiveness of different control measures on a scale, allowing management to identify areas of strength and weakness.

Anonymity and Honest Responses: Surveys can be conducted anonymously, encouraging more honest and candid feedback from employees who might hesitate to speak openly in workshops or interviews.

Advantage: This anonymity can lead to more accurate assessments of the controls' effectiveness, as employees might feel more comfortable pointing out issues without fear of repercussions.

Comparison to Other Methods:

Workshops (A): While useful for in-depth discussions, they are time-consuming and less efficient for large groups.

Interviews (C): Provide detailed insights but are also time-consuming and not practical for a 200-person department.

Observation (D): Useful for firsthand assessment but not efficient for gathering widespread feedback across a large department.

Conclusion: The correct answer is B, as surveys are the most efficient method for self-assessing the overall effectiveness of controls in a large department, offering a balance of broad coverage, standardized data, and anonymity.

NEW QUESTION 72

An engagement supervisor obtains facilities maintenance reports from a contractor during an audit of third-party services. Which of the following is the source of authority for the engagement supervisor to make such contact outside the organization?

- A. The policies and procedures of the internal audit activity.
- B. The provisions of the internal audit charter.
- C. The authority of the CEO.
- D. The IIA's Code of Ethics.

Answer: B

Explanation:

Authority Source: The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. It grants internal auditors the right to access all records, personnel, and physical properties relevant to the performance of engagements.

Facilities Maintenance Reports: When an engagement supervisor contacts a third-party contractor for maintenance reports, the authority is derived from the internal audit charter, which ensures auditors have the necessary access to perform their duties.

Importance of the Charter: This ensures the independence and objectivity of the internal audit activity, providing a clear mandate for auditors to obtain information from external parties as needed.

NEW QUESTION 73

During which phase of the contracting process are contracts drafted for a proposed business activity??

- A. Initiation phase.
- B. Bidding phase.
- C. Development phase.
- D. Management phase.

Answer: C

Explanation:

Contracts are typically drafted during the development phase of the contracting process. This phase follows the initiation and bidding phases and involves detailed negotiations and the preparation of formal agreements that outline the terms and conditions of the proposed business activity. This ensures that both parties have a clear understanding of their obligations and expectations before the contract is finalized and executed.

NEW QUESTION 74

Internal auditors map a process by documenting the steps in the process, which provides a framework for understanding Which of the following is a reason to use narrative memoranda?

- A. To create a detailed risk assessment
- B. To identify individuals who perform key roles
- C. To explain a simple process.
- D. To document which outputs support other activities.

Answer: C

Explanation:

Step by Step Comprehensive Detailed Explanation with References:

? Introduction:

? Purpose of Narrative Memoranda:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides.

NEW QUESTION 75

Which of the following resources would be most effective for an organization that would like to improve how it informs stakeholders of its social responsibility performance?

- A. ISO 26000
- B. Global Reporting Initiative.
- C. Open Compliance and Ethics Group.
- D. COSO's enterprise risk management framework.

Answer: B

Explanation:

? Understanding the GRI:The Global Reporting Initiative (GRI) provides a comprehensive framework for reporting on sustainability performance, including social responsibility aspects.

? Framework and Standards:GRI standards are widely used and recognized globally, which helps organizations benchmark their performance against other entities using the same framework.

? Stakeholder Communication:The GRI framework emphasizes transparency and accountability in reporting, making it an effective tool for informing stakeholders about an organization's social responsibility performance.

? Comprehensive Coverage:GRI covers various aspects of social responsibility, including economic, environmental, and social impacts, providing a holistic view of an organization's performance.

References:

? The Global Reporting Initiative (GRI) .

NEW QUESTION 78

An internal auditor discovered fraud while performing an audit of an organization's procurement process. Which of the following describes the greatest benefit of using forensic auditing techniques in this scenario?

- A. Enhanced capability to prevent frauds from occurring.
- B. Greater assurance that procurement frauds will be detected in a timely manner
- C. Improved capability of evaluating fraud risks within the organization.
- D. Greater understanding of fraud through better evidence collection

Answer: D

Explanation:

Forensic auditing techniques provide a systematic approach to collecting and analyzing evidence related to fraud. The primary benefit of these techniques is the enhanced ability to gather comprehensive and detailed evidence, which leads to a greater understanding of how the fraud occurred and who was involved. This detailed evidence collection supports legal proceedings and helps in identifying control weaknesses that need to be addressed to prevent future frauds.

References:

? "Forensic Auditing: Principles and Practices," which outlines the importance of evidence collection in understanding and combating fraud.

NEW QUESTION 83

Which of the following is most appropriate for internal auditors to do during the internal audit recommendations monitoring process?

- A. Report the monitoring status to senior management when requested.
- B. Assist management with implementing corrective actions.
- C. Determine the frequency and approach to monitoring
- D. Include all types of observations in the monitoring process

Answer: C

Explanation:

? Introduction:

? Responsibilities in Monitoring:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides .

NEW QUESTION 86

Which of the following recognized competitive strategies focuses on gaining efficiencies?

- A. Focus
- B. Cost leadership.
- C. Innovation
- D. Differentiation

Answer: B

Explanation:

Competitive Strategies: Recognized competitive strategies include cost leadership, differentiation, focus, and innovation. Each strategy emphasizes different aspects of competitive advantage.

Cost Leadership Strategy:

? Efficiency Focus: Cost leadership focuses on gaining efficiencies and reducing costs to offer products or services at a lower price than competitors. This strategy aims to achieve the lowest operational costs and prices in the industry.

? Economies of Scale: It involves optimizing production processes, achieving economies of scale, and minimizing expenses to maintain competitive pricing.

Comparison with Other Strategies:

? Focus Strategy: Concentrates on serving a particular market niche with specialized products or services.

? Innovation Strategy: Emphasizes creating unique products or services through innovation and technological advancement.

? Differentiation Strategy: Focuses on offering unique and superior products or services that stand out from competitors.

IIA Guidance and References:

? Cost leadership as a competitive strategy centers on achieving cost efficiencies to gain a competitive edge in pricing, making it a strategic choice for organizations looking to compete on price rather than product differentiation.

NEW QUESTION 87

At a conference an internal auditor presented a new computer-assisted audit technique developed by his organization. The presentation included sample data derived from performing audit engagements for the organization. Travel costs were paid by the conference organizers and the trip was approved by the chief audit executive (CAE). However, neither management nor the CAE was aware that the internal auditor would be making a presentation based on work completed for the organization. According to IIA guidance, which of the following statements is most relevant regarding the actions of the auditor?

- A. The auditor did not violate the standard of objectivity because the presentation had no impact on the organization.
- B. The auditor violated the principle of confidentiality by disclosing information about the organization without approval.
- C. The auditor should have obtained permission before using the material, but did not violate the IIA Code of Ethics or Standards
- D. The auditor breached the conflict of interest standard by accepting payment for travel costs

Answer: B

Explanation:

Understanding Confidentiality: According to the IIA Code of Ethics, internal auditors are required to respect the value and ownership of information they receive and not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Presentation Details: In this scenario, the internal auditor presented sample data derived from audit engagements performed for the organization. Even though the travel costs were covered by the conference organizers and the trip was approved by the CAE, neither the CAE nor management was aware of the specific content of the presentation.

Violation of Confidentiality: By disclosing information related to the organization's audit engagements without prior approval from management or the CAE, the auditor breached the confidentiality principle. The auditor should have sought permission before using and presenting any material related to the organization's internal operations.

IIA Standards: Standard 1310 – Requirements of the Quality Assurance and Improvement Program – states that internal auditors must adhere to the IIA's Code of Ethics and Standards. This includes maintaining confidentiality and obtaining necessary approvals before disclosing any organizational information.

References:

? The principle of confidentiality is clearly violated when information is shared without proper authorization, regardless of the perceived impact on the organization. The IIA Code of Ethics emphasizes the importance of obtaining appropriate permissions to prevent unauthorized disclosures.

NEW QUESTION 88

A multinational organization has multiple divisions that sell their products internally to other divisions. When selling internally, which of the following transfer prices would lead to the best decisions for the organization?

- A. Full cost
- B. Full cost plus a markup.
- C. Market price of the product.
- D. Variable cost plus a markup.

Answer: C

Explanation:

Using the market price of the product for internal transfer pricing leads to the best decisions for the organization because it reflects the true economic value of the goods or services being transferred. This method promotes efficiency and fairness within the divisions.

? Economic Value: Market price reflects the true economic value, ensuring that the internal transactions are conducted at fair and competitive prices.

? Performance Measurement: It provides a consistent basis for evaluating the performance of different divisions, as they are measured against external market conditions.

? Resource Allocation: Helps in optimal allocation of resources by ensuring that internal transactions are economically justified and comparable to external transactions.

References:

? "Management Accounting: Principles and Practices," which discusses the advantages of using market-based transfer pricing .

NEW QUESTION 92

Which of the following documents are internal auditors most likely to be asked to sign as a demonstration of due professional care?

- A. A description of their job responsibilities.

- B. A non-disclosure agreement
- C. An annual declaration of commitment to The HAs Code of Ethics.
- D. The internal audit charter

Answer: C

Explanation:

- ? Professional Responsibility: Internal auditors are expected to demonstrate their commitment to professional standards and ethics.
 - ? Code of Ethics: The IIA's Code of Ethics outlines principles that internal auditors must follow, including integrity, objectivity, confidentiality, and competency.
 - ? Annual Declaration: Signing an annual declaration reinforces the auditor's commitment to these principles and ensures ongoing adherence to the professional standards.
 - ? Demonstration of Due Care: By signing this declaration, auditors formally acknowledge their responsibility to uphold ethical standards, which is a demonstration of due professional care.
- References:
- ? The IIA's Code of Ethics.
 - ? The IIA's International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION 93

Which of the following would most likely form part of the engagement scope?

- A. Potential legislation on privacy topics will be employed as a compliance target
- O Wire transfers that exceeded \$10,000 in the last 12 months will be analyzed.
- B. Both random and judgmental samplings will be used during the engagement
- C. The probability of significant errors will be considered via risk assessment.

Answer: B

Explanation:

- ? Introduction:
 - ? Scope Definition:
 - ? Options Analysis:
 - ? Conclusion:
- :
- Internal Audit Standards and Practice Guides

NEW QUESTION 95

An internal audit activity has to confirm the validity of the activities reported by a grantee that received a charitable contribution from the organization Which of the following methods would best help meet this objective?

- A. Visiting the grantee to assess whether the execution of the project was in line with the defined grant scope.
- B. Verifying that the grantee's final report is in line with what was depicted in the initial budget request.
- C. Reconciling general ledger accounts used by management of the area under review for reflecting expenses on charitable contributions
- D. Interviewing employees of the corporate affairs department, which is responsible for charitable activities

Answer: A

Explanation:

- ? Introduction:
 - ? Effective Verification Methods:
 - ? Options Analysis:
 - ? Conclusion:
- :
- Internal Audit Standards and Practice Guides .

NEW QUESTION 98

Which of the following is true of matrix organizations?

- A. A unity-of-command concept requires employees to report technically, functionally, and administratively to the same manager.
- B. A combination of product and functional departments allows management to utilize personnel from various functions.
- C. Authority, responsibility, and accountability of the units involved may vary based on the project's life, or the organization's culture.
- D. it is best suited for firms with scattered locations or for multi-line, large-scale firms.

Answer: B

Explanation:

- ? Matrix Organization Structure: In matrix organizations, employees report to both functional and product managers. This dual reporting structure allows the organization to efficiently use its personnel across different projects and functions.
 - ? Advantages of Matrix Structure:
 - ? Unity-of-Command: Option A is incorrect because the unity-of-command principle is compromised in a matrix organization due to dual reporting lines.
 - ? Authority and Accountability: Option C is correct to some extent but does not capture the primary benefit of resource utilization.
 - ? Suitability: Option D refers to the best use cases for matrix structures, but option B provides a more comprehensive understanding of how matrix organizations function.
- : Management and Organizational Behavior textbooks.

NEW QUESTION 100

According to IIA guidance, which of the following statements is true regarding engagement planning?

- A. For both assurance and consulting engagements, planning typically occurs after the engagement objectives and scope have already been determined.
- B. The expectations and objectives of an assurance engagement are usually determined b
- C. or in conjunction with, the engagement client

- D. Internal auditors may not need to complete a preliminary risk assessment for a consulting engagement as they would when planning an assurance engagement.
- E. For both consulting and assurance engagements, internal auditors usually form the engagement objectives prior to completing the preliminary risk assessment

Answer: B

Explanation:

The expectations and objectives of an assurance engagement are often determined in conjunction with the engagement client, aligning with the client's needs and the scope of the engagement. In consulting engagements, internal auditors provide advice and services tailored to the client's requests, which may not always follow a preliminary risk assessment process like in assurance engagements.

: The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) provide detailed guidance on this aspect of engagement planning, particularly in Standards 2200 and 2201.

NEW QUESTION 101

A newly appointed chief audit executive (CAE) of a small organization is developing a resource management plan. Which of the following approaches would be most beneficial to help the CAE obtain details of the internal audit activity's collective knowledge, skills, and other competencies?

- A. Review or establish a documented skills assessment of the internal audit staff and gather information from post-audit surveys.
- B. Obtain from the human resources department the job descriptions and position requirements for all internal audit staff.
- C. Conduct an objective written test of the internal audit staff to assess their knowledge and skills related to core internal audit competencies.
- D. Request the internal audit staff to submit a document that summarizes their most recent performance appraisals and post audit reviews.

Answer: A

Explanation:

Conducting a documented skills assessment helps in identifying the existing competencies and any gaps within the internal audit team. Post-audit surveys can provide feedback on the performance and areas for improvement, which can be used to further refine the skills and competencies of the audit staff (Ref: [16†source])

NEW QUESTION 102

Which of the following statements is most accurate with respect to the required elements of the quality assurance and improvement program?

- A. Internal assessments provide sufficient objectivity to provide evidence to the board that the internal audit activity understands the organization's control processes.
- B. Quality assessments focus on the internal audit activity's structure, relationships with stakeholders, compliance with the Standards, and internal audit staff proficiency.
- C. In order to comply with the Standards, the internal audit activity must obtain an objective assessment of its processes and function at least once a year
- D. Internal auditors completing internal assessments must demonstrate certification to perform quality assessments

Answer: B

Explanation:

? Understanding Quality Assessments: Quality assessments in internal audit activities are designed to evaluate various aspects such as the structure of the internal audit activity, relationships with stakeholders, compliance with the IIA Standards, and the proficiency of internal audit staff.

? Internal Assessments: These 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.

? External Assessments: External assessments should be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization to ensure objectivity and comprehensiveness.

? Focus Areas: Quality assessments should focus on compliance with the IIA Standards, the effectiveness of the internal audit activity's structure, the quality of relationships with stakeholders, and the proficiency and continuous professional development of internal audit staff.

? Continuous Improvement: The quality assurance and improvement program (QAIP) should be designed to enable the internal audit activity to add value and improve an organization's operations. It helps ensure that the internal audit activity is in compliance with the IIA Standards and Code of Ethics and continuously improves.

References:

? IIA Standard 1300 – Quality Assurance and Improvement Program .

NEW QUESTION 104

Which of the following actions would an internal auditor perform primarily during a consulting engagement of a debt collections process?

- A. Reviewing journal entries for accuracy and completeness.
- B. Comparing the policies and procedures to regulatory collections guidance.
- C. Advising management on streamlining the recording of accounts receivable.
- D. Performing a walk-through of the debt collections process to determine whether proper segregation of duties exists

Answer: C

Explanation:

A consulting engagement involves providing advice and recommendations to improve processes, controls, and efficiency.

? Option A: Reviewing journal entries for accuracy and completeness.

? Option B: Comparing the policies and procedures to regulatory collections guidance.

? Option C: Advising management on streamlining the recording of accounts receivable.

? Option D: Performing a walk-through of the debt collections process to determine whether proper segregation of duties exists.

Reference:

Consulting engagements, as defined by the IIA, involve activities where internal auditors provide advisory services to help an organization improve its governance, risk management, and control processes. This often includes providing insights and recommendations for process improvements, such as streamlining accounts receivable recording, which aligns with the role described in Option C.

By referencing these principles and guidelines, the answers and explanations provided are validated and grounded in established internal audit standards and accounting practices.

NEW QUESTION 108

According to IIA guidance, which of the following is true regarding typical fraud schemes?

- * 1. A diversion occurs when an employee has an undisclosed personal economic interest in a transaction that adversely affects the organization
- * 2. Tax evasion is intentional reporting of false or misleading information on a tax return by an organization to reduce taxes owed.
- * 3. Skimming involves stealing cash or assets from the organization and is normally concealed by adjusting the organization's records
- * 4. Disbursement fraud occurs when a person causes the organization to issue a payment for fictitious goods or services

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

Answer: D

Explanation:

? Diversion typically involves redirecting resources or assets for personal use, not just having an undisclosed interest.

? Tax evasion involves deliberate falsification of financial information to avoid tax liabilities.

? Skimming is taking cash before it is recorded in the accounting system, usually difficult to detect.

? Disbursement fraud involves creating fictitious invoices or vendors to divert funds.

: These definitions are aligned with common fraud schemes outlined in the ACFE (Association of Certified Fraud Examiners) Fraud Tree and various IIA practice guides.

NEW QUESTION 113

When determining the level of staff and resources to be dedicated to an assurance engagement, which of the following would be the most relevant to the chief audit executive?

- A. The overall adequacy of the internal audit activity's resources
- B. The availability of guest auditors for the engagement
- C. The number of internal auditors used for the previous review of the same area.
- D. The available resources with the specific skill set required

Answer: D

Explanation:

When determining the level of staff and resources to dedicate to an assurance engagement, the most critical factor for the chief audit executive (CAE) is ensuring that the available resources possess the specific skill sets required for the engagement. This ensures that the internal audit team can effectively address the unique challenges and risks associated with the audit.

? Skill Set Relevance: The CAE must match the skills and knowledge of the audit

team to the specific requirements of the audit engagement. This includes technical expertise, industry knowledge, and any specialized skills needed for the audit.

? Resource Allocation: Effective allocation involves not just the number of auditors but ensuring they have the right competencies to perform the audit tasks proficiently.

? Impact on Audit Quality: Allocating resources with the appropriate skill set ensures the audit is thorough and of high quality, reducing the risk of overlooking critical issues.

References:

? "Managing Internal Audit Activities," which discusses the importance of aligning audit resources with the necessary skills for specific engagements .

NEW QUESTION 114

Which of the following statements best demonstrates application of due professional care during an assurance engagement?

- A. The engagement detected irregularities and noncompliance instances.
- B. The engagement supervisor had no significant comments in the supervisory review.
- C. The audit procedures were systematically planned, executed, and documented.
- D. The engagement objectives were designed to assist the engagement client

Answer: C

Explanation:

? Introduction:

? Application of Due Professional Care:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 117

Which of the following is the most important determinant of the objectives and scope of assurance engagements?

The organizational chart, business objectives, and policies and procedures of the area to be reviewed

- A. The most recent risk assessment conducted by management of the area to be reviewed.
- B. The requests of operational and senior management throughout the organization.
- C. The preliminary risk assessment performed by internal auditors planning the engagement.

Answer: C

Explanation:

The primary determinant of the objectives and scope of assurance engagements is the preliminary risk assessment performed by internal auditors. This assessment identifies the key risks associated with the area under review and helps prioritize the audit efforts based on the significance and likelihood of these risks. This approach ensures that the engagement focuses on the most critical areas, thereby adding value to the organization.

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

emphasize the importance of risk-based planning in determining the scope and objectives of audit engagements. Standard 2200 (Engagement Planning) and

Standard 2210 (Engagement Objectives) provide guidance on this process.

NEW QUESTION 120

Which of the following statements is true regarding the reporting of tangible and intangible assets?

- A. For plant assets, cost includes the purchase price and the cost of design and construction
- B. For intangible assets, cost includes the purchase price and development costs.
- C. Due to their indefinite nature, intangible assets are not subject to amortization.
- D. The organization must expense any cost incurred in developing a plant asset

Answer: A

Explanation:

Plant Assets Cost: For plant assets, which are tangible fixed assets such as buildings and machinery, the cost includes all expenditures necessary to acquire the asset and prepare it for its intended use. This includes the purchase price and additional costs such as design and construction.

: This aligns with standard accounting practices where costs related to bringing an asset to its operational state are capitalized as part of the asset's cost.

Intangible Assets Cost: The cost of intangible assets, such as patents and trademarks, typically includes the purchase price and development costs. However, option B refers to this, but the correct focus for plant assets is emphasized in option A.

Amortization of Intangible Assets: Intangible assets with finite useful lives are subject to amortization, contradicting option C. Those with indefinite lives are not amortized but tested annually for impairment.

Expense of Developing Plant Assets: Development costs for plant assets are capitalized, not expensed immediately, making option D incorrect.

NEW QUESTION 125

Which of the following internal audit activities is performed in the design evaluation phase?

- A. The internal auditor reviews prior audits and workpapers
- B. The internal auditor identifies the controls over segregation of duties.
- C. The internal auditor checks a process for completeness.
- D. The internal auditor communicates the audit results to management

Answer: B

Explanation:

To determine which internal audit activity is performed in the design evaluation phase, it's essential to understand what each phase in the audit process entails. The design evaluation phase involves assessing whether the design of controls is adequate to mitigate risks to acceptable levels.

? Option A: The internal auditor reviews prior audits and workpapers.

? Option B: The internal auditor identifies the controls over segregation of duties.

? Option C: The internal auditor checks a process for completeness.

? Option D: The internal auditor communicates the audit results to management.

Reference:

According to the Institute of Internal Auditors (IIA) Standards and the guidelines in the IPPF (International Professional Practices Framework), during the design evaluation phase, internal auditors assess the adequacy of control designs. This includes evaluating whether controls like segregation of duties are properly designed to mitigate identified risks. Identifying controls over segregation of duties is a fundamental aspect of assessing the adequacy of the control environment and its design to ensure it can effectively prevent and detect errors and fraud.

NEW QUESTION 129

According to IIA guidance, which of the following statements is true regarding due professional care?

- A. Internal auditors must exercise due professional care to ensure that all significant risks will be identified.
- B. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.
- C. Due professional care requires the internal auditor to conduct extensive examinations and verifications to ensure fraud does not exist.
- D. Due professional care is displayed during a consulting engagement when the internal auditor focuses on potential benefits of the engagement rather than the cost

Answer: B

Explanation:

Due professional care is a critical concept in internal auditing, ensuring that auditors conduct their work with the necessary diligence and competence.

? **Definition and Standards:** According to the IIA's International Standards for the

Professional Practice of Internal Auditing (Standards), specifically Standard 1220 – Due Professional Care, internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

Reference: Standard 1220 emphasizes that internal auditors must consider the extent of work needed to achieve the engagement's objectives and the cost of assurance in relation to potential benefits.

Expectation of Competence: The standard requires auditors to use their professional judgment and to exercise the level of skill and care that a reasonably prudent internal auditor would use in similar circumstances.

Practical Example: This includes evaluating the nature and complexity of the engagement, the adequacy and effectiveness of risk management, and control processes relevant to the engagement.

Comprehensive, Not Excessive: While due professional care involves being thorough, it does not mandate exhaustive procedures such as those implied in options A and C.

Clarification: Option A overstates the requirement by implying that all significant risks must be identified, which is not always feasible.

Clarification: Option C misinterprets due professional care by suggesting that extensive examinations and verifications to ensure fraud does not exist are always necessary, which is beyond the typical scope of many audits.

Cost vs. Benefit in Consulting: Option D refers to consulting engagements and the consideration of benefits over cost, which is a part of due professional care but does not capture the comprehensive expectation of care and skill.

Clarification: Due professional care in consulting engagements is about balancing benefits and costs but also involves ensuring quality and thoroughness appropriate to the engagement's objectives.

Conclusion: The correct answer is B, as it accurately reflects the IIA's guidance that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

NEW QUESTION 132

Which of the following is most likely the subject of a periodic report from the chief audit executive to the board?

- A. A complete, accurate, and comprehensive account of engagement observations and recommendations.
- B. Oversight of the coordination between the internal audit activity and independent outside auditors
- C. The internal audit activity's purpose, authority, responsibility, and performance relative to plan.
- D. Management's assertions regarding the system of internal controls.

Answer: C

Explanation:

? Introduction:

? Importance of Reporting:

? Options Analysis:

? Conclusion:

:

Institute of Internal Auditors (IIA) Standard 2060: Reporting to Senior Management and the Board.

NEW QUESTION 136

Which of the following steps should an internal auditor complete when conducting a review of an electronic data interchange application provided by a third-party service?

- * 1. Ensure encryption keys meet ISO standards.
- * 2. Determine whether an independent review of the service provider's operation has been conducted.
- * 3. Verify that the service provider's contracts include necessary clauses.
- * 4. Verify that only public-switched data networks are used by the service provider

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

Answer: C

Explanation:

When conducting a review of an electronic data interchange (EDI) application provided by a third-party service, the internal auditor should ensure several key aspects to maintain security and compliance:

? Independent Review of Service Provider: Determine whether an independent

review of the service provider's operations has been conducted. This review helps ensure that the service provider meets necessary standards and maintains adequate controls.

? Contractual Clauses: Verify that the service provider's contracts include necessary

clauses. These clauses should cover aspects like data security, confidentiality, compliance with standards, and performance metrics.

Ensuring encryption keys meet ISO standards and verifying the use of public-switched data networks are important but are more specific technical controls that might be part of broader reviews. The focus here should be on independent verification and robust contractual agreements

NEW QUESTION 138

Which of the following is applicable to both a job order cost system and a process cost system'?

- A. Total manufacturing costs are determined at the end of each period.
- B. Costs are summarized in a production cost report for each department
- C. Three manufacturing cost elements are tracked: direct materials, direct labor, and manufacturing overhead.
- D. The unit cost can be calculated by dividing the total manufacturing costs for the period by the units produced during the period.

Answer: C

Explanation:

Both job order cost systems and process cost systems track three manufacturing cost elements: direct materials, direct labor, and manufacturing overhead. These cost elements are essential in calculating the total production cost and determining the cost per unit.

? Direct Materials: The raw materials directly used in the production of goods.

? Direct Labor: The wages of workers who are directly involved in manufacturing the products.

? Manufacturing Overhead: Indirect costs associated with production, such as utilities, maintenance, and depreciation of equipment.

References:

? "Cost Accounting: A Managerial Emphasis," which details the tracking of manufacturing costs in different costing systems .

NEW QUESTION 143

A company makes a product at a cost of \$26 per unit, of which \$10 is fixed cost. The product is usually sold for \$30 per unit; however, the company has been approached by a new customer who would like to purchase 3,500 units for \$18 each Further, the company would Incur additional cost to deliver the units to this customer If the company has the excess manufacturing capacity and all other factors are constant, what is the additional cost that the company would Incur in order to makea profit of \$1.50 per unit for this order?

- A. \$0.50
- B. \$1.50
- C. \$2 50
- D. \$3.50

Answer: C

Explanation:

To determine the additional cost that the company would incur to make a profit of \$1.50 per unit for the new order, we need to calculate the relevant costs and desired profit margin:

? Current Cost and Selling Price: The current cost to produce one unit is \$26, with \$10 being fixed costs and \$16 being variable costs. The product is usually sold

for \$30.

? New Order Pricing: The new customer offers to purchase 3,500 units at \$18 each.

The company needs to make a profit of \$1.50 per unit on this order.

? Calculation:

The additional cost that can be incurred while still making a profit of \$1.50 per unit is \$2.50

NEW QUESTION 145

Which of the following statements is true regarding the management-by-objectives method?

- A. Management by objectives is most helpful in organizations that have rapid changes
- B. Management by objectives is most helpful in mechanistic organizations with rigidly defined tasks.
- C. Management by objectives helps organizations to keep employees motivated.
- D. Management by objectives helps organizations to distinguish clearly strategic goals from operational goals

Answer: C

Explanation:

Definition of Management by Objectives (MBO): Management by Objectives is a performance management approach where managers and employees work together to identify, plan, organize, and communicate objectives. This method involves setting clear, measurable goals with defined timelines.

Key Benefits:

? Employee Motivation: MBO aligns individual goals with organizational objectives, fostering a sense of ownership and engagement among employees. By participating in goal-setting, employees are more motivated to achieve these objectives, as they see a direct link between their efforts and organizational success.

? Performance Measurement: Clear objectives allow for effective performance measurement and provide a basis for performance appraisals and feedback.

Comparison with Other Options:

? Rapid Changes: Option A is incorrect because MBO is not necessarily best suited for environments with rapid changes, as it relies on predefined objectives that may quickly become outdated.

? Mechanistic Organizations: Option B is incorrect because MBO is more effective in flexible, dynamic organizations rather than rigid, mechanistic ones.

? Strategic vs. Operational Goals: Option D is incorrect because MBO does not inherently distinguish between strategic and operational goals; it focuses on achieving specific measurable objectives.

References:

? MBO helps in increasing employee motivation by involving them in the goal-setting process and aligning their objectives with the organization's goals, which enhances engagement and performance.

NEW QUESTION 150

Which of the following is the most appropriate way to ensure that a newly formed internal audit activity remains free from undue influence by management?

- A. Appoint the chief audit executive as a member of the board.
- B. Adopt written policies and procedures for the internal audit activity, approved by the board.
- C. Ensure the chief audit executive reports administratively to the audit committee.
- D. Establish the internal audit activity's position within the organization in an audit charter

Answer: D

Explanation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility.

Establishing the internal audit activity's position within the organization in an audit charter ensures independence and objectivity by clearly stating the internal audit's role and its reporting lines.

The charter should be approved by the board and senior management to reinforce its authority and protect the internal audit activity from undue influence by management

NEW QUESTION 154

The chief audit executive (CAE) has assigned an internal auditor to an upcoming engagement. Which of the following requirements would most likely indicate that the Internal auditor was assigned to an assurance engagement?

- A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.
- B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.
- C. The assigned internal auditor must not assume management responsibilities while performing the engagement.
- D. The assigned internal auditor must maintain objectivity while performing the engagement

Answer: C

Explanation:

? Introduction:

? Role of Internal Auditors in Assurance Engagements:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 157

An organization has a mature control environment but limited internal audit resources. Given this scenario, on which of the following should the internal auditors focus their testing?

- A. Detective compensating controls
- B. Preventive compensating controls.
- C. Detective key controls.
- D. Preventive key controls

Answer: D

Explanation:

When internal audit resources are limited, it is crucial to focus on the most critical aspects of the control environment. Preventive key controls are designed to prevent errors or irregularities from occurring, which are essential for maintaining a strong control environment. Given the mature control environment of the organization, prioritizing preventive key controls ensures that potential issues are addressed before they materialize, providing a proactive approach to risk management.

Reference: IIA Practice Guide "Assessing the Adequacy of Internal Controls"

NEW QUESTION 161

During an assurance engagement an internal auditor uses benchmarking research to support preparation of a report to stakeholders that contains significant findings about control deficiencies. Which of the following skills did the auditor demonstrate?

- A. Internal audit management
- B. Conflict negotiation.
- C. Critical thinking
- D. Persuasion and collaboration

Answer: C

Explanation:

? Benchmarking Research: Utilizing benchmarking research to support the preparation of a report demonstrates the auditor's ability to analyze data, compare performance, and identify control deficiencies.

? Critical Thinking: This skill involves evaluating and interpreting data to make informed judgments and recommendations, which is essential for identifying significant findings and control deficiencies.

? Application in Auditing: Critical thinking helps auditors assess the effectiveness of controls and develop recommendations based on evidence and comparative analysis.

References:

? The role of critical thinking in internal auditing as emphasized by the IIA .

NEW QUESTION 165

Which of the following methods is most closely associated to year over year trends?

- A. Horizontal analysts
- B. Vertical analysis.
- C. Common-size analysis.
- D. Ratio analysis.

Answer: A

Explanation:

? Introduction:

? Year-over-Year Trends:

? Options Analysis:

? Conclusion:

:

Financial Analysis and Reporting Guidelines

NEW QUESTION 170

According to IIA guidance, which of the following statements regarding the internal audit charter is true?

- A. The nature of consulting services typically is not included in the charter.
- B. The chief audit executive must formally review the charter at least once a year
- C. The nature of assurances provided to parties outside of the organization typically is not included in the charter.
- D. The charter typically defines the internal audit activity's position within the organization.

Answer: D

Explanation:

The internal audit charter outlines the internal audit activity's purpose, authority, and responsibility within the organization.

It defines the internal audit activity's position within the organization, including reporting lines, independence, and access to records, personnel, and physical properties relevant to the performance of engagements.

This clarity helps ensure that the internal audit activity can operate independently and effectively

NEW QUESTION 172

An internal auditor believes that the internal audit activity's independence is impaired Which of the following actions should the internal auditor take first?

- A. Report the impairment to senior management
- B. Discuss the impairment with the audit manager.
- C. Ascertain the best approach to disclose the impairment.
- D. Decide on the extent of impact of the impairment

Answer: B

Explanation:

The board manages several key processes to ensure adequate governance within an organization, one of which is the development, approval, and execution of the strategic plan. This process is critical because it defines the organization's direction, goals, and the actions required to achieve these goals.

? Strategic Planning: The board plays a pivotal role in setting the organization's

strategic direction, which includes establishing long-term goals and defining the means to achieve them.

? Performance Measurement: While the board may establish and measure

performance objectives for the internal audit activity, this is part of a broader governance framework.

? Risk Management: The board also develops strategies to mitigate risks, ensuring

that the organization can achieve its objectives effectively.

Thus, the most comprehensive governance-related process managed by the board involves strategic planning

NEW QUESTION 176

Which of the following is the next step in understanding a business process once an internal auditor has identified the process?

- A. Determine process outputs
- B. Determine process inputs.
- C. Determine process activities.
- D. Determine process goals

Answer: C

Explanation:

Once an internal auditor has identified a business process, the next step is to understand the specific activities involved in that process. This includes mapping out each step or

action taken within the process to gain a detailed understanding of how it operates. Identifying process activities helps in evaluating the efficiency, effectiveness, and potential risks associated with the process

NEW QUESTION 178

What is the primary reason that audit supervision includes approval of the engagement report?

- A. To ensure the objectives of the area under review are met
- B. To ensure senior management supports the reports conclusions
- C. To ensure report style and grammar are appropriate.
- D. To ensure report findings are substantiated

Answer: D

Explanation:

The primary reason for audit supervision, including the approval of the engagement report, is to ensure that the findings presented in the report are substantiated by adequate and appropriate evidence. This step is crucial to maintain the credibility and reliability of the audit process and its outcomes.

? Substantiation of Findings: Ensuring that findings are substantiated helps in

providing a clear and defensible basis for the conclusions and recommendations made in the report.

? Audit Quality: This step ensures the quality and integrity of the audit process,

confirming that the evidence collected during the audit is sufficient and appropriate to support the findings.

? Credibility: By substantiating findings, the report gains credibility, which is essential

for the stakeholders who rely on the audit report for decision-making.

References:

? "Internal Audit Standards and Procedures," which outlines the importance of evidence substantiation in audit reports .

NEW QUESTION 183

Which of the following statements is true regarding an organization's inventory valuation?

- A. The valuation will be incorrect if the inventory includes goods in transit shipped free on board (FOB) destination to another organization.
- B. The valuation will be correct if the inventory includes goods received on consignment from another organization.
- C. The valuation will be incorrect if the inventory includes goods in transit shipped FOB shipping point from another organization.
- D. The valuation will be correct if the inventory includes goods sent on consignment to another organization

Answer: C

Explanation:

Inventory Valuation Principles: Inventory valuation must accurately reflect the ownership of goods. The accounting treatment of inventory in transit depends on the shipping terms, specifically whether it is FOB (Free on Board) shipping point or FOB destination.

FOB Shipping Point:

? Ownership Transfer: When goods are shipped FOB shipping point, ownership transfers to the buyer as soon as the goods leave the seller's premises.

? Impact on Inventory Valuation: If goods shipped FOB shipping point are in transit at the end of the reporting period, they should be included in the buyer's inventory, not the seller's.

FOB Destination:

? Ownership Transfer: When goods are shipped FOB destination, ownership transfers to the buyer only when the goods arrive at the buyer's premises.

? Impact on Inventory Valuation: Goods in transit under FOB destination terms should remain in the seller's inventory until they reach the buyer.

Consignment:

? Goods Received on Consignment: Goods held on consignment should not be included in the inventory of the consignee (the holder) but remain in the inventory of the consignor (the owner).

? Goods Sent on Consignment: Goods sent out on consignment should still be included in the inventory of the consignor until they are sold by the consignee.

Correct and Incorrect Valuations:

? Incorrect Valuation (Option C): Including goods in transit shipped FOB shipping point in the seller's inventory would be incorrect, as ownership has transferred to the buyer.

? Correct Valuation (Option D): Including goods sent on consignment in the consignor's inventory is correct because ownership has not transferred.

References:

? Correct inventory valuation practices ensure that goods in transit are properly accounted for based on the shipping terms, thus providing an accurate financial picture of inventory.

NEW QUESTION 186

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