

IIA

Exam Questions IIA-CHAL-QISA

Qualified Info Systems Auditor CIA Challenge Exam



NEW QUESTION 1

According to IIA guidance, which of the following most appropriately justifies the CEO's decision that the internal audit activity shall be responsible for risk management and investigation at multinational organization?

- A. The recommendation of the parent office external auditors.
- B. The provisions of the internal audit charter.
- C. The authority of the CEO.
- D. The level of proficiency of the chief audit executive

Answer: B

Explanation:

Role of Internal Audit Charter: The internal audit charter is a formal document that defines the purpose, authority, and responsibility of the internal audit activity. It establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board.

CEO's Decision Justification: According to IIA guidance, the internal audit activity can take on responsibilities related to risk management and investigation if it is defined within the internal audit charter. The charter must outline the scope of the internal audit activity, which can include risk management functions if approved by the board and senior management.

Authority and Proficiency: While the CEO has the authority to assign responsibilities, the decision must align with the provisions of the internal audit charter. The level of proficiency of the CAE and the recommendation of external auditors can support the decision but are not primary justifications.

IIA Standards: Standard 1000 – Purpose, Authority, and Responsibility – requires that the internal audit activity's purpose, authority, and responsibility be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.

References:

? The internal audit charter is the primary document that justifies the scope and responsibilities of the internal audit activity, including risk management and investigation roles. It ensures that such roles are formally acknowledged and authorized by the board and senior management.

NEW QUESTION 2

Which of the following offers the best explanation of why the auditor in charge would assign a junior auditor to complete a complex part of the audit engagement?

- A. The senior auditors are unavailable, as they are currently working on other portions of the engagement
- B. The auditor in charge believes that the junior auditor should obtain a specific type of experience.
- C. The audit engagement has a tight deadline and the work must be completed timely.
- D. The auditor in charge is unable to identify audit staff with all of the required skills needed to complete the engagement

Answer: B

Explanation:

Assigning a junior auditor to complete a complex part of an audit engagement can be a strategic decision aimed at providing the junior auditor with valuable experience. This exposure to complex tasks helps in their professional development, building their skills and knowledge for future responsibilities. Although tight deadlines or the unavailability of senior auditors might be factors, the primary reason is often to enhance the junior auditor's competence and career growth.

NEW QUESTION 3

Organizations that adopt just-in-time purchasing systems often experience which of the following?

- A. A slight increase in carrying costs.
- B. A greater need for inspection of goods as the goods arrive
- C. A greater need for linkage with a vendors computerized order entry system.
- D. An Increase in the number of suitable suppliers

Answer: C

Explanation:

Just-in-time (JIT) purchasing systems aim to minimize inventory levels by receiving goods only as they are needed in the production process, which requires tight integration with suppliers.

? **Vendor Linkage:** JIT systems demand a highly efficient and responsive supply chain. Linking with vendors' computerized order entry systems ensures that orders are processed quickly and accurately, supporting the JIT philosophy.

? **Inspection:** JIT systems often rely on high-quality suppliers to minimize the need for inspection upon arrival, focusing instead on preventive measures at the supplier's end.

? **Carrying Costs:** A JIT system typically reduces carrying costs by keeping inventory levels low.

? **Supplier Base:** The focus is often on a few reliable suppliers rather than increasing the number of suppliers.

References:

? "Supply Chain Management: Strategy, Planning, and Operation," which discusses the operational requirements and benefits of JIT systems.

NEW QUESTION 4

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 5

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 6

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 7

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 engagements 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 8

Which of the following activities best demonstrates an internal auditor's commitment to developing professional competencies?

- A. Requesting to be part of all engagements on the annual audit plan
- B. Attending a series of locally offered training courses.
- C. Completing a skills assessment and development plan for targeted training needs.
- D. Attending a webinar on how to use data analytics

Answer: C

Explanation:

? Introduction:

? Commitment to Development:

? Options Analysis:

? Conclusion:

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Internal Audit Standards and Practice Guides

NEW QUESTION 9

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 10

An organization's health-care insurance costs have been rising approximately 10 percent per year for several years. Which of the following analytical review procedures would best evaluate the reasonableness of the increase in health-care costs?

- A. Develop a comparison of the costs incurred with similar costs incurred by other organizations
- B. Obtain the government index of health-care costs for the comparable period of time and compare the rate of increase with that of the cost per employee incurred by the organization.
- C. Obtain a bid from another health-care administrator to provide the same administrative services as the current health-care administrator.
- D. Review all claims and compare with appropriate procedures to ensure that overpayments have not occurred

Answer: B

Explanation:

Analytical review procedures involve evaluating financial information by studying plausible relationships among financial and non-financial data.

? Government Index Comparison: Comparing the organization's increase in health-care costs with a relevant government index provides a benchmark to assess whether the cost increases are in line with broader economic trends.

? Claims Review: While reviewing all claims could help identify specific overpayments, it is more labor-intensive and less effective for evaluating overall reasonableness.

? Competitive Bids: Obtaining bids from other health-care administrators might control future costs but does not evaluate the reasonableness of past cost increases.

? Industry Comparison: Comparing costs with those incurred by similar organizations could be useful but might not provide a standardized measure like a government index.

References:

? "Auditing and Assurance Services: An Integrated Approach," which details the use of analytical procedures in evaluating financial data.

NEW QUESTION 10

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 12

The internal audit activity is responsible for which of the following actions related to an organization's internal controls?

- A. Mitigating risks affecting achievement of organizational objectives.
- B. Enabling opportunities affecting achievement of organizational objectives.
- C. Analyzing and advising regarding costs versus benefits of control activities.
- D. Attesting to fairness of financial statements

Answer: C

Explanation:

Internal audit activities include evaluating the effectiveness and efficiency of internal controls, and part of this process involves analyzing and advising on the cost-benefit relationship of control activities.

This function helps ensure that the internal controls in place are not only effective in mitigating risks but are also economically justified

NEW QUESTION 15

During a payroll audit, the internal auditor discovered that several individuals who have the same position classification as the are earning a significantly higher salary. The auditor noted the names and amounts of each; and he planned to prepare a request to the chief audit executive for a salary increase based on this information. Which of the following IIA Code of Ethics principles was violated in this scenario?

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

Answer: B

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 19

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 21

Which of the following statements best describes the difference between risk appetite and risk tolerance?

- A. Risk appetite applies to specific objectives, while risk tolerance refers to an organization's general attitude toward risk.
- B. Risk appetite refers to the degree of risk acceptance for a particular objective, while risk tolerance is one approach to risk management
- C. Risk appetite refers to an organization's general level of acceptance, while risk tolerance is a more specific and subordinate concept
- D. There is no significant difference between the two terms

Answer: C

Explanation:

? Definition of Risk Appetite: Risk appetite is the amount and type of risk an organization is willing to pursue or retain to achieve its objectives. It reflects the organization's overall approach to risk-taking and is typically articulated at the highest level of the organization.

Reference: COSO's Enterprise Risk Management Framework.

Definition of Risk Tolerance: Risk tolerance refers to the acceptable variation relative to the achievement of specific objectives. It is more granular and specific than risk appetite, detailing the levels of risk that are acceptable within the parameters set by the organization's risk appetite.

Reference: IIA's Practice Guide on Risk Management.

Distinguishing the Two Concepts: Risk appetite is broad and sets the overall boundaries for risk-taking, while risk tolerance is more specific, outlining acceptable risk levels for particular objectives within the broader risk appetite framework.
Practical Example: An organization may have a high risk appetite, accepting significant risks to achieve growth, but its risk tolerance for operational risks (such as system failures) may be low, indicating minimal acceptable deviations from expected performance.
Conclusion: The correct answer is C, as risk appetite represents the organization's general level of risk acceptance, whereas risk tolerance is more specific and detailed, falling under the broader scope of risk appetite.

NEW QUESTION 25

Which of the following statements is true regarding corporate social responsibility (CSR)?

- A. Many of the areas explored by CSR are normally included in an audit universe or annual audit plan
- B. Despite significant corporate resources spent on CSR reporting, investors generally do not rely on CSR information.
- C. Unlike many other areas of reporting responsibilities impacting stakeholders, CSR is largely voluntary.
- D. Typically, operating management does not have a major role to play based on the public nature of reporting

Answer: C

Explanation:

? Introduction:

? Nature of CSR Reporting:

? Options Analysis:

? Conclusion:

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NEW QUESTION 30

In the years after the mid-service point of a depreciable asset, which of the following depreciation methods will result in the highest depreciation expense?

- A. Sum of the years' digits.
- B. Declining balance.
- C. Double-declining balance.
- D. Straight line.

Answer: C

Explanation:

Depreciation methods allocate the cost of an asset over its useful life. Different methods impact the depreciation expense reported each year.

? Option A: Sum of the years' digits.

? Option B: Declining balance.

? Option C: Double-declining balance.

? Option D: Straight line.

Reference:

As per accounting principles and guidelines (e.g., GAAP and IFRS), the double-declining balance method is a form of accelerated depreciation that provides higher depreciation expenses earlier in the life of an asset. This method applies a constant rate of depreciation to the declining book value of the asset each year, which is why it results in the highest depreciation expense after the mid-service point.

NEW QUESTION 35

An internal auditor is asked to determine why the production line for a large manufacturing organization has been experiencing shutdowns due to unavailable parts. The auditor learns that production data used for generating automatic purchases via electronic interchange is collected on personal computers connected by a local area network (LAN). Purchases are made from authorized vendors based on both the production plans for the next month and an authorized materials requirements plan (MRP) that identifies the parts needed per unit of production. The auditor suspects the shutdowns are occurring because purchasing requirements have not been updated for changes in production techniques. Which of the following audit procedures should be used to test the auditor's theory?

- A. Compare purchase orders generated from test data input into the LAN with purchase orders generated from production data for the most recent period.
- B. Develop a report of excess inventory and compare the inventory with current production volume.
- C. Compare the parts needed based on current production estimates and the MRP for the revised production techniques with the purchase orders generated from the system for the same period
- D. Select a sample of production estimates and MRPs for several periods and trace them into the system to determine that input is accurate

Answer: C

Explanation:

To test the theory that shutdowns are due to outdated purchasing requirements, the auditor should compare the parts needed according to the revised production techniques with the purchase orders generated. This comparison will reveal whether the system has been updated to reflect changes in production techniques, thereby identifying any discrepancies causing the unavailability of parts.

: The practice of matching current production estimates with the materials requirements

plan (MRP) aligns with standard audit procedures for validating the accuracy and relevance of system-generated purchase orders.

NEW QUESTION 36

A rapidly expanding retail organization continues to be tightly controlled by its original small management team. Which of the following is a potential risk in this vertically centralized organization?

- A. Lack of coordination among different business units
- B. Operational decisions are inconsistent with organizational goals.
- C. Suboptimal decision-making.
- D. Duplication of business activities.

Answer: C

Explanation:

? Introduction:

? Risk Analysis:

? Conclusion:

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Organizational Structure and Internal Control Theory.

NEW QUESTION 41

An internal audit activity maintains a quality assurance and improvement program that includes annual self-assessments. The internal audit activity includes in each engagement report a clause that the engagement is conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). Which of the following justifies inclusion of this clause in the reports?

A. Internal audit activity policies and engagement records provide relevant, sufficient, and competent evidence that the statement is correct.

B. The audit committee has reviewed the annual self-assessment results and approved the use of the clause.

C. The self-assessment results were validated by a qualified external review team three years prior.

D. The internal audit charter, approved by the audit committee, requires conformance with the Standards.

Answer: C

Explanation:

According to the IIA Standards, an internal audit activity must have an external assessment conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The validation by an external team ensures that the internal audit activity's self-assessments and quality assurance practices meet the required standards.

: IIA Standard 1312 (External Assessments) and IIA Standard 1320 (Reporting on the Quality Assurance and Improvement Program) provide detailed guidelines for this process.

NEW QUESTION 42

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 47

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. 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:

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NEW QUESTION 51

The internal audit activity plans to assess the effectiveness of management's self-assessment activities regarding the risk management process. Which of the following procedures would be most appropriate to accomplish this objective?

A. Review corporate policies and board minutes for examples of risk discussions.

B. Conduct interviews with line and senior management on current practices.

C. Research and review relevant industry information concerning key risks.

D. Observe and test control and monitoring procedures and related reporting.

Answer: D

Explanation:

To assess the effectiveness of management's self-assessment activities regarding the risk management process, internal auditors should directly observe and test the control and monitoring procedures.

This hands-on approach allows auditors to verify the implementation and functionality of risk management controls and the accuracy of related reporting.

Direct observation and testing provide the most reliable evidence of the effectiveness of these procedures

NEW QUESTION 54

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:

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Internal Audit Standards and Practice Guides .

NEW QUESTION 56

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 projects 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 61

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 66

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 68

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 73

Which of the following best demonstrates that the internal audit activity is using due professional care?

- A. The internal audit activity reports directly to the board on the engagements it performs.
- B. Internal auditors undertake the necessary training to complete their audit work.
- C. The completion of engagements is based on the assumption that fraudulent activities may exist.
- D. Internal auditors consider the use of technology-based audit and other data analysis techniques

Answer: D

Explanation:

Demonstrating due professional care involves using appropriate technology and data analysis techniques to enhance the audit's effectiveness and efficiency. These tools help auditors identify anomalies, trends, and potential areas of risk more accurately and timely, reflecting a higher standard of care in their audit activities.

References:

? "Auditing Standards and Guidelines," which emphasize the importance of using advanced techniques in audit processes.

NEW QUESTION 78

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:

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NEW QUESTION 80

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 83

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 85

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 90

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 91

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 95

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 97

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 102

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 106

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 110

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 115

If the skills and competencies are not present within the internal audit activity to complete an ad-hoc assurance engagement, which of the following is an acceptable resolution?

- A. Politely decline the engagement due to a lack of qualified staff available at the time.
- B. Complete the engagement as requested, with the best of the current staff's abilities.
- C. Consider using employees from other departments in the organization on the audit team.
- D. Change the scope of the testing to ensure that only available staff proficiencies are used

Answer: C

Explanation:

? Introduction:

? Resolving Skill Gaps:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 119

A bakery chain has a statistical model that can be used to predict daily sales at individual stores based on a direct relationship to the cost of ingredients used and an inverse relationship to rainy days What conditions would an auditor look for as an Indicator of employee theft of food from a specific store?

- A. On a rainy day
- B. total sales are greater than expected when compared to the cost of ingredients used
- C. On a sunny day
- D. total sales are less than expected when compared to the cost of ingredients used.
- E. Both total sales and cost of ingredients used are greater than expected.
- F. Both total sales and cost of ingredients used are less than expected.

Answer: A

Explanation:

The statistical model indicates that daily sales have a direct relationship with the cost of ingredients used and an inverse relationship with rainy days.

? Option A: On a rainy day, if total sales are greater than expected compared to the cost of ingredients used, it may indicate discrepancies that could be a sign of employee theft. For instance, if ingredients are used but not reflected in the sales, it suggests that items might be missing (stolen).

? Option B: On a sunny day, lower-than-expected sales compared to the cost of ingredients could indicate wastage but not necessarily theft.

? Option C and D: Both scenarios where total sales and the cost of ingredients are higher or lower than expected do not specifically point to theft without additional context.

NEW QUESTION 120

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