

# IIA

## Exam Questions IIA-CHAL-QISA

Qualified Info Systems Auditor CIA Challenge Exam



### NEW QUESTION 1

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 2

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 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

A multinational organization has asked the internal audit activity to assist in setting up the organization's risk management system The chief audit executive (CAE) agrees to take on the engagement as a consultant. Which of the following tasks is appropriate for the CAE to undertake?

- A. Coordinate and facilitate risk workshops for management to attend
- B. Establish the degree of risk appetite for management to accept.
- C. Set risk Indicators and mitigation plans for management to Implement.
- D. Determine the number of significant risks for management to report to the board

**Answer: A**

**Explanation:**

Role of CAE as Consultant: The chief audit executive (CAE) can act as a consultant to help management establish a risk management system. Their role should be facilitative rather than directive, ensuring that management owns the risk management process. Appropriate Tasks:  
? Risk Workshops: Coordinating and facilitating risk workshops (option A) helps management identify and assess risks, allowing them to develop appropriate responses. This is a suitable task for the CAE.  
? Risk Appetite and Indicators: Establishing risk appetite (option B) and setting risk indicators and mitigation plans (option C) are management's responsibilities.  
? Reporting Risks: Determining the number of significant risks to report (option D) should also be a management function.

**NEW QUESTION 5**

A regional entertainment organization is in the process of developing a corporate social responsibility (CSR) policy. Management invites ideas from employees when developing the CSR policy Which of the following is the most appropriate idea to include?

- A. Management has overall responsibility for the effectiveness of governance, risk management, and internal control processes associated with CSR.
- B. The board is responsible for ensuring that CSR objectives are established, risks are managed, performance is measured, and activities are appropriately monitored and reported
- C. Management is responsible for ensuring that the organization's CSR principles are communicated, understood, and integrated into decision-making processes.
- D. Generally, CSR activities are limited to the management of the organization, thus, employees do not have a responsibility for ensuring the success of CSR objectives.

**Answer: C**

**Explanation:**

CSR Policy Development: In developing a Corporate Social Responsibility (CSR) policy, it is important that the principles of CSR are communicated and understood throughout the organization.  
Integration into Decision-Making: Management's responsibility includes ensuring that CSR principles are not only communicated but also integrated into the organization's decision-making processes at all levels. This ensures that CSR is part of the organizational culture and operational strategies.  
Board's Role: While the board has a role in overseeing and ensuring that CSR objectives are established and risks are managed, the day-to-day responsibility for integrating CSR into business operations lies with management.  
IIA Guidance: According to IIA guidance, internal auditors should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities, which include CSR initiatives (Standard 2110 - Governance).  
References:  
? Effective communication and integration of CSR principles ensure that the organization operates in a socially responsible manner, aligning its business practices with societal expectations and contributing to sustainable development.

**NEW QUESTION 6**

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 7**

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 reevaluation 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 8**

Who is responsible for ensuring internal auditors continuing professional development\*

- A. Individual internal auditors
- B. Chief audit executive.
- C. The board
- D. Engagement supervisors

**Answer: A**

**Explanation:**

? Introduction:

? Responsibility for CPD:  
? Options Analysis:  
? Conclusion:  
:IIA's Continuing Professional Education Requirements

#### NEW QUESTION 9

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 10

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 10

According to IIA guidance, which of the following would be the best first step to manage risk when a third party is overseeing the organization's network and data?

- A. Creating a comprehensive reporting system for vendors to demonstrate their ongoing due diligence in network operations.
- B. Drafting a strong contract that requires regular vendor control reports and a right-to-audit clause.
- C. Applying administrative privileges to ensure right-to-access controls are appropriate.
- D. Creating a standing cybersecurity committee to identify and manage risks related to data security.

**Answer: B**

#### Explanation:

**Managing Third-Party Risk:** When a third party oversees the organization's network and data, the primary concern is to manage and mitigate risks associated with outsourcing critical functions.

**Strong Contract Provisions:** Drafting a strong contract that includes specific provisions such as regular vendor control reports and a right-to-audit clause is essential. These provisions ensure that the organization maintains oversight and control over the third party's activities.

**IIA Standards:** Standard 2201 – Planning Considerations requires that internal auditors consider the organization's objectives and the means by which they are achieved, including the role of third parties.

**Contract Management:**

? **Control Reports:** Regular control reports from the vendor provide insights into their performance and compliance with agreed-upon standards.

? **Right-to-Audit Clause:** This clause allows the organization to periodically audit the third party to ensure compliance with contractual obligations and to assess the

effectiveness of their control environment.

References:

? Ensuring that third-party vendors adhere to the same standards of risk management and control as the organization helps in mitigating risks related to data security and network management.

#### NEW QUESTION 11

While conducting an engagement in the procurement department, the internal auditor noticed that the department head's travel reports showed minor travel expenses, and there were no charges for hotels, meals, or transportation. However, the auditor knew that the department head frequently traveled worldwide to meet with suppliers and visit their production sites. Which of the following would be the most appropriate next step for the auditor?

- A. The auditor should make a note of the issue for follow-up when employee travel expenses are audited.
- B. The auditor should analyze trends and changes among the organization's suppliers over the past few years.
- C. The auditor should investigate whether there are any special arrangements regarding senior management travel.
- D. The auditor should analyze the list of destinations the department head visited to estimate typical costs.

**Answer: C**

#### Explanation:

? Identifying the Anomaly: The internal auditor has identified a discrepancy in the travel expenses of the department head, who frequently travels yet reports minimal expenses. This raises a red flag that needs further investigation.

? Understanding the Context: It is important to determine if there are legitimate reasons for the discrepancy, such as special arrangements made for senior management travel, which could explain the absence of typical travel expenses like hotels, meals, and transportation.

? Appropriate Next Step: Investigating whether there are any special arrangements for senior management travel (Option C) is the most logical next step. This helps in understanding the context and validating whether the discrepancy is justified or indicative of potential issues such as fraud or misreporting.

Reference: Internal auditing standards emphasize the need for auditors to understand the environment and context of the organization's operations when anomalies are detected.

Other Options Considered:

Option A: Making a note for future follow-up is not proactive and delays addressing a potential issue.

Option B: Analyzing supplier trends, while useful, does not directly address the travel expense anomaly.

Option D: Estimating costs based on destinations can provide insights but does not explain potential legitimate arrangements made by the organization.

Conclusion: Investigating special arrangements regarding senior management travel (Option C) is the most appropriate step to understand the discrepancy and ensure there are no irregularities.

#### NEW QUESTION 12

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 14

Which of the following could increase risks to the organization's control environment?

- A. Strong board of directors oversight.
- B. Incentive-based compensation structures.
- C. Lower than average employee turnover.
- D. Implementation of a fraud hotline.

**Answer: B**

#### Explanation:

Incentive-based compensation can increase the risk of unethical behavior or fraudulent activities as employees might be tempted to manipulate results to achieve their performance targets.

This could undermine the control environment and lead to significant risks if not managed properly.

#### NEW QUESTION 16

A bank uses customer departmentalization to categorize its departments. Which of the following groups best exemplifies this method of categorization?

- A. Community, institutional, and agricultural banking.
- B. Mortgages, credit cards, and savings.
- C. South, southwest and east.
- D. Teller, manager, and IT specialist.

**Answer: A**

#### Explanation:

Customer Departmentalization: This method categorizes departments based on the type of customers they serve. It aligns services and strategies with the specific

needs and characteristics of different customer groups.

Examples of Customer Departmentalization:

? Community Banking: Focuses on services tailored for local communities, often involving personal banking services.

? Institutional Banking: Caters to large organizations, offering specialized financial products and services.

? Agricultural Banking: Provides financial services to farmers and agricultural businesses, addressing their unique needs.

Comparison with Other Options:

? Product Departmentalization: Option B categorizes by products offered, such as mortgages and credit cards.

? Geographical Departmentalization: Option C categorizes by regions, such as south and southwest.

? Functional Departmentalization: Option D categorizes by job functions, such as teller and manager.

References:

? Customer departmentalization is exemplified by categorizing banking services into community, institutional, and agricultural sectors, focusing on the distinct needs of different customer groups.

#### NEW QUESTION 18

According to IIA guidance, which of the following actions by the chief audit executive would best ensure that internal auditors demonstrate due professional care?

- A. Developing policies and procedures for the internal audit activity
- B. Ensuring the internal audit activity is not found fallible during audit engagements.
- C. Undertaking all engagements that management requests of the internal audit activity.
- D. Ensuring the internal audit activity reports functionally to the board of directors

**Answer:** A

#### Explanation:

? Professional Care: Ensuring that internal auditors demonstrate due professional care involves establishing clear policies and procedures that guide their activities.

? Guidance and Standards: These policies and procedures help ensure that the internal audit activity adheres to professional standards and best practices.

? Standard Compliance: According to the IIA's Performance Standard 2040 – Policies and Procedures, the CAE must establish policies and procedures to guide the internal audit activity.

? Quality Assurance: Properly developed policies and procedures contribute to the overall quality and effectiveness of the internal audit activity, ensuring that engagements are conducted with due professional care.

References:

? IIA Standard 2040 – Policies and Procedures .

#### NEW QUESTION 19

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 24

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 26

While auditing an organization's credit approval process, an internal auditor learns that the organization has made a large loan to another auditors 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 31**

Which of the following situations is most likely to heighten an internal auditor's professional skepticism regarding potential fraud?

- A. A procurement manager does not have the expected academic credentials for his position
- B. A salesperson frequently complains about the organization's policy on sales commissions.
- C. The accounts payable supervisor has requested advances against her monthly salary on several occasions
- D. A financial accountant is absent from work frequently due to regular medical procedures

**Answer: A**

**Explanation:**

- Professional skepticism is an essential attitude for internal auditors, particularly when assessing the risk of fraud. According to the IIA's Practice Guide "Internal Auditing and Fraud", one of the red flags that may heighten an internal auditor's professional skepticism is the presence of employees whose qualifications or credentials do not match the requirements of their positions. In this case, a procurement manager lacking the expected academic credentials raises concerns because it could indicate potential fraudulent activities such as unqualified decision-making or manipulation of procurement processes.
- Reference: IIA Practice Guide "Internal Auditing and Fraud"

**NEW QUESTION 35**

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

**NEW QUESTION 40**

According to IIA guidance, which of the following best describes the purpose of a planning memorandum for an audit engagement?

- A. It documents the audit steps and procedures to be performed.
- B. It documents preliminary information useful to the audit team.
- C. It documents events that could hinder the achievement of process objectives.
- D. It documents existing measures that manage risks in the area under review

**Answer: A**

**Explanation:**

- The planning memorandum serves as a comprehensive blueprint for an audit engagement, outlining the specific steps, procedures, and strategies that will be employed to carry out the audit. According to IIA guidance, the purpose of this document is to ensure that the audit team is well-prepared and that the audit process is systematic and thorough.
- ? Documentation of Audit Steps and Procedures: The primary purpose of a planning memorandum is to detail the steps and procedures that the audit team will follow. This ensures consistency and clarity throughout the audit process and provides a clear framework for team members to follow.

Reference: IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2201 – Planning Considerations, which states that the internal auditor must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. Preparation and Coordination: It serves as a preparatory document that helps in coordinating the activities of the audit team, ensuring that everyone is aware of their roles and responsibilities. Practical Example: If an audit is being conducted on the financial reporting processes, the planning memorandum would include specific procedures for testing internal controls over financial reporting, timelines for each phase of the audit, and responsibilities assigned to each team member. Risk Management: While it includes information on preliminary risks, its main focus is on documenting the audit steps rather than managing risks or existing measures, which would be covered in other documents or sections of the audit plan. Clarification: Options B, C, and D may include elements found within broader audit planning, but the planning memorandum specifically focuses on the procedural roadmap. Conclusion: The correct answer is A, as the planning memorandum's primary function is to document the audit steps and procedures to be performed, ensuring a structured and organized approach to the audit engagement.

#### NEW QUESTION 45

The internal audit activity is currently working on several engagements, including a consulting engagement on the management process in the human resources department. Which of the following actions should the chief audit executive take to most efficiently and effectively ensure the quality of the engagement?

- A. Assign an experienced manager to monitor the whole engagement process.
- B. Employ fieldwork peer review to enhance the work quality.
- C. Require internal auditors to follow a standardized work program.
- D. Personally supervise the engagement

**Answer: B**

#### Explanation:

Ensuring Quality: To ensure the quality of the consulting engagement in the human resources department, the chief audit executive (CAE) can implement a fieldwork peer review process. This involves having experienced auditors review the work of their colleagues to ensure adherence to audit standards and procedures.

Efficiency and Effectiveness:

? Peer Review: This method helps identify any issues or improvements needed in real-time, enhancing both the efficiency and effectiveness of the audit process.

? Standardized Work Programs: While standardized work programs (option C) provide consistency, peer review adds a layer of quality assurance.

? Supervision: Personal supervision by the CAE (option D) is not practical for ensuring the quality of all engagements.

#### NEW QUESTION 49

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 52

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 55

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 58**

An internal auditor observed that sales staff are able to modify or cancel an order in the system prior to shipping. She wonders whether they can also modify orders after shipping. Which of the following types of controls should she examine?

- A. Batch controls.
- B. Application controls
- C. General IT controls.
- D. Logical access controls

**Answer: B**

**Explanation:**

Application controls are specific to software applications and ensure that transactions are processed correctly and accurately. They include controls over input, processing, and output. In this scenario, examining application controls will help determine if sales staff can modify orders after shipping, as these controls directly impact how data is handled within the system.

References:

- ? "Information Technology Auditing," which explains the role of application controls in maintaining data integrity and security.

**NEW QUESTION 63**

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 65**

According to Herzberg's Two-Factor Theory of Motivation, which of the following factors are mentioned most often by satisfied employees?

- A. Salary and status.
- B. Responsibility and advancement
- C. Work conditions and security.
- D. Peer relationships and personal life

**Answer: B**

**Explanation:**

Herzberg's Two-Factor Theory, also known as the Motivation-Hygiene Theory, distinguishes between motivators and hygiene factors. Motivators, which are related to job content, lead to higher job satisfaction and are intrinsic factors such as achievement, recognition, responsibility, and advancement. In contrast, hygiene factors, which are related to job context (e.g., salary, status, work conditions), do not lead to higher satisfaction but can cause dissatisfaction if missing.

: Herzberg's research indicated that motivators like responsibility and advancement are more frequently mentioned by employees as sources of job satisfaction compared to hygiene factors like salary and status.

**NEW QUESTION 67**

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 71**

Which of the following statements is true regarding partnership liquidation?

- A. Operations can continue after the liquidation, if all partners agree.
- B. Partnership liquidation ends both the legal and economic life of an entity
- C. Partnership liquidation occurs when there is capital deficiency.
- D. When a partnership is liquidated, each partner pays creditors from cash received

**Answer: B**

**Explanation:**

Partnership liquidation refers to the process of dissolving a partnership, where all assets are sold, liabilities are paid off, and any remaining assets are distributed among the partners. This process marks the end of the partnership's legal existence and its economic activities.

? Legal and Economic Termination: Upon liquidation, the partnership ceases to exist legally and economically. This means that it can no longer operate or enter into new business transactions.

? Asset Distribution: The liquidation process ensures that all assets are sold, and the proceeds are used to pay off any outstanding debts. Any remaining funds are distributed to the partners according to the partnership agreement.

? Capital Deficiency: While capital deficiency might prompt liquidation, it is not a defining characteristic of the process.

? Creditors Payment: Creditors are paid from the partnership's assets, not directly by the partners unless agreed otherwise or if the assets are insufficient to cover the liabilities.

References:

? "Fundamentals of Partnership Accounting," which details the steps and consequences of partnership liquidation.

**NEW QUESTION 73**

Following an IT systems audit, management agreed to implement a specific control in one of the IT systems. After a period, the internal auditor followed up and learned that management had not implemented the agreed management action due to the decision to move to another IT system that has built-in controls, which may address this risks highlighted by the Internal audit Which of the following is the most appropriate action to address the outstanding audit recommendation?

- A. The auditor examines the system documentation of the new system to verify that the risk has been addressed in the new system, then reports to senior management the closure of the issue.
- B. The auditor accepts management's explanation that the previously identified issue is adequately addressed by the new IT system, as management understands the concern and is most knowledgeable about the new system, and closes the outstanding issue.
- C. The auditor advises management that replacing the IT system does not dismiss the prior obligation to implement the agreed action plan, and escalates the issue to senior management and the board.
- D. The auditor requires management to provide details regarding the process for selecting the new IT system and whether other systems were evaluated, and closure of the issue would depend on the new information provided.

**Answer: A**

**Explanation:**

Without verification (option B) is not appropriate as it may leave risks unmitigated.

Escalating Without Verification: Advising management and escalating (option C) is premature if the new system may already address the issues.

Detailed Process Evaluation: Requiring additional details about the process (option D) may be unnecessary if the auditor can verify the controls directly.

**NEW QUESTION 74**

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:

:

Internal Audit Standards and Practice Guides

#### NEW QUESTION 78

Which requirement should the chief audit executive consider when communicating results of the quality assurance and improvement program to the board of a large organization?

- A. The internal assessment results should be discussed once every five years
- B. The rating conclusions and the impact from results of the external assessment should be explained
- C. The results of the external assessment should be discussed every seven years.
- D. The qualifications and independence of the internal assessment team should be discussed

**Answer: B**

#### Explanation:

Discussing the impact helps the board understand how the results affect the internal audit's ability to fulfill its responsibilities and improve its processes.

? Transparency: Clear communication of these aspects helps build trust and provides a basis for informed decision-making by the board.

References:

? "Internal Audit Quality Assurance and Improvement Program," which emphasizes the importance of explaining rating conclusions and impacts to the board .

#### NEW QUESTION 80

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 82

An organization uses the management-by-objectives method, whereby employee performance is based on defined goals. Which of the following statements is true regarding this approach?

- A. It is particularly helpful to management when the organization is facing rapid change.
- B. It is a more successful approach when adopted by mechanistic organizations.
- C. it is more successful when goal-setting is performed not only by management, but by all team members, including lower-level staff
- D. it is particularly successful in environments that are prone to having poor employer- employee relations

**Answer: C**

#### Explanation:

? Management-by-Objectives (MBO): This method involves setting clear, measurable objectives that employees and management agree on. It aligns individual performance with organizational goals.

? Inclusive Goal-Setting: When goal-setting is inclusive, involving all team members, it fosters a sense of ownership and commitment to the goals. This collaboration enhances motivation and accountability.

? Empirical Evidence: Research and practical experience indicate that MBO is more effective when employees at all levels are involved in the goal-setting process, as it leads to better performance and job satisfaction.

? IIA Standards and Best Practices: Encouraging participation from all levels aligns with the principles of good governance and effective management, which are central to the IIA's standards and best practices.

References:

? Principles of Management-by-Objectives (MBO) .

#### NEW QUESTION 87

The organization's internal audit charter was last updated six years ago to update the charter, which of the following actions is most appropriate for the chief audit executive to take?

- A. Wait for the next external assessment and address all of the missing information in the charter based on the recommendations from the external assessment team
- B. Perform a review of IIA guidance to become acquainted with the latest mandatory elements prior to updating the charter
- C. Use an internal audit charter template from another organization that operates within the same industry.
- D. Identify an individual within the internal audit activity who has in-depth knowledge of mandatory IIA guidance elements to address any gaps or areas of the current version of the charter that could be improved

**Answer: B**

#### Explanation:

The chief audit executive should review the latest guidance from the Institute of Internal Auditors (IIA) to ensure the internal audit charter complies with current standards. This approach ensures the charter reflects up-to-date practices and mandatory elements, maintaining the integrity and effectiveness of the internal audit function. References:

? "International Standards for the Professional Practice of Internal Auditing," which provides mandatory guidance on the internal audit charter.

#### NEW QUESTION 88

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 89

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 92

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 96

According to the IIA Code of Ethics, which of the following is required with regard to communicating results?

- A. The internal auditor should present material information to appropriate personnel within the organization without revealing confidential matters that could be detrimental to the organization
- B. The internal auditor should disclose all material information obtained by the date of the final engagement communication.
- C. The internal auditor should obtain all material information within the established time and budget parameters.
- D. The internal auditor should reveal material facts that could potentially distort the reporting of activities under review

**Answer: D**

#### Explanation:

The IIA Code of Ethics sets forth principles and expectations for ethical behavior in internal auditing, particularly regarding the communication of results.

? Integrity and Transparency:According to the IIA Code of Ethics, internal auditors

are expected to exhibit integrity and transparency in their reporting, ensuring that material facts are disclosed accurately to avoid misrepresentation.

Reference: IIA Code of Ethics, Principle 4 – Integrity, which emphasizes the need for internal auditors to disclose all material facts known to them that, if not disclosed, could distort the reporting of activities under review.

Revealing Material Facts: The principle of integrity mandates that internal auditors must reveal material facts necessary to avoid any misrepresentation of the activities being reviewed. This ensures that stakeholders receive a truthful and complete picture of the audit findings.

Practical Example: If an auditor discovers significant control weaknesses that could impact financial reporting, these must be disclosed in the audit report to provide a true representation of the entity's control environment.

Confidentiality and Appropriateness: While confidentiality is important, it does not supersede the need to report material facts that are essential for accurate reporting. Confidential matters that are not material or do not distort the reporting can be withheld to protect sensitive information.

Clarification: Option A incorrectly suggests that all confidential matters can be withheld even if they are material and could distort reporting, which contradicts the principle of integrity.

Comprehensive Disclosure: The requirement to disclose all material information by the date of the final engagement communication (Option B) and obtaining all material information within established parameters (Option C) are important but secondary to the fundamental ethical obligation to ensure accurate and truthful reporting.

Clarification: These options focus on procedural aspects rather than the core ethical obligation of integrity and accurate reporting.

Conclusion: The correct answer is D, as it aligns with the IIA Code of Ethics requirement

that internal auditors should reveal material facts that could potentially distort the reporting of activities under review, ensuring transparency and integrity in their communications.

#### NEW QUESTION 98

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 102

The audit plan requires a review of the testing procedures used in pre-production of a large information system prior to its live launch. If the chief audit executive (CAE) is uncertain that the current audit team has all the required knowledge to conduct the engagement, which of the following would be the most appropriate course of action for the CAE to take to preserve independence?

- A. Contract with the software vendor to provide an appropriate resource
- B. Ask for a knowledgeable resource from the IT department
- C. Make use of an external service provider.
- D. Request audit resources through the external auditor.

**Answer: C**

#### Explanation:

If the chief audit executive (CAE) is uncertain that the current audit team has all the required knowledge to conduct the engagement, the most appropriate course of action is to use an external service provider. This helps preserve the independence and objectivity of the internal audit function.

? Expertise: External service providers bring specialized knowledge and expertise that may not be available within the internal team.

? Independence: Utilizing an external provider ensures that the audit maintains its independence and objectivity, avoiding any potential conflicts of interest.

? Quality: Ensures that the audit engagement is conducted with the highest standards, leveraging the external provider's experience and skills.

References:

? "Internal Audit and Assurance," which outlines the benefits and considerations of engaging external service providers for specialized audit tasks.

#### NEW QUESTION 103

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annual snowfall for the coming winter. Which of the following best describes this type of risk?

- A. Residual
- B. Net
- C. inherent.
- D. Accepted.

**Answer: C**

#### Explanation:

Inherent Risk: Inherent risk refers to the exposure to risk in its natural state, without considering any controls or mitigation measures. It is the risk that exists before any action is taken to manage it.

? Example: In the scenario of a snow removal company, the significant reduction in annual snowfall represents an inherent risk as it is a natural condition that affects the company's operations.

Other Risk Types:

? Residual Risk: This is the risk that remains after controls and mitigation strategies have been applied.

? Net Risk: Similar to residual risk, it is the risk that remains after considering existing controls.

? Accepted Risk: This is the risk that the organization knowingly accepts after evaluating its impact and likelihood.

Scenario Planning: The exercise of considering the impacts of reduced snowfall helps the company understand its inherent risks and prepare for potential adverse outcomes.

#### NEW QUESTION 108

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 109

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 111

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 115

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 117

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 122**

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 124**

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 126**

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 130

When taken by a chief audit executive, which of the following actions would be most likely to prevent division management from exaggerating sales reports

- \* 1. Announcing a series of internal audit engagements focusing on compliance with corporate sales-reporting policies.
- \* 2. Asking the president and the board to issue a statement of corporate policy stressing the importance of accurate management reporting and the negative consequences of intentional misreporting
- \* 3. Setting up a hotline for employees to report fraudulent behavior anonymously.
- \* 4. Assisting the controller in developing and monitoring a series of business process indicators, which are historically correlated with, but independent of. sales.

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

**Answer: C**

#### Explanation:

Corporate Policy Statement: Having the president and the board issue a statement stressing the importance of accurate management reporting and the negative consequences of intentional misreporting can help set a tone at the top. This reinforces the significance of ethical behavior and compliance with reporting policies across the organization.

: Strong tone at the top is critical for fostering an ethical culture and compliance within an organization (IIA Standard 2110 – Governance).

Business Process Indicators: Assisting the controller in developing and monitoring business process indicators that are historically correlated with, but independent of, sales can provide an objective means to validate sales reports. This reduces the opportunity for management to exaggerate sales figures as these indicators can act as a control mechanism.

Reference: Implementing independent checks or process indicators is a common practice to ensure data integrity and prevent manipulation (COSO Internal Control Framework).

Other Options:

Internal Audit Engagements: While announcing a series of internal audit engagements (option 1) might deter some misreporting, it might not be as effective as a strong policy statement combined with objective monitoring indicators.

Hotline for Reporting Fraud: Setting up a hotline (option 3) is useful for detecting fraud but might not directly prevent exaggeration in sales reports as effectively as business process indicators.

### NEW QUESTION 135

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 136

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 141

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 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 make a 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 146

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 149

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 152**

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 154**

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 157**

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 162**

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 165**

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, total sales are greater than expected when compared to the cost of ingredients used.
- B. total sales are greater than expected when compared to the cost of ingredients used
- C. On a sunny day, total sales are less than expected when compared to the cost of ingredients used.
- 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 168**

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