

Exam Questions IIA-CHAL-QISA

Qualified Info Systems Auditor CIA Challenge Exam

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NEW QUESTION 1

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

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

Answer: C

Explanation:

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

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

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

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

NEW QUESTION 2

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 3

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 4

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 5

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

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

Answer: C

Explanation:

? ISO 31000 Context: ISO 31000 provides guidelines on risk management, emphasizing the importance of understanding the external context.
? External Context: This includes external factors such as regulatory and competitive environments that can impact the organization's risk profile.
? Regulatory Environment: Understanding regulations helps the organization ensure compliance and avoid legal risks.
? Competitive Environment: Analyzing the competitive environment allows the organization to anticipate market changes and manage competitive risks.
References:
? ISO 31000 Risk Management Guidelines.

NEW QUESTION 6

Which of the following is the primary engagement responsibility of an entry-level internal auditor?

- A. Leadership
- B. Documentation.
- C. Analysis.
- D. Reporting

Answer: B

Explanation:

Primary Responsibilities: For entry-level internal auditors, the primary responsibilities focus on learning and supporting tasks. Documentation is a key responsibility as it involves recording the findings and work performed during an audit engagement. This helps in building a foundation for understanding audit processes and methodologies.
: IIA's Global Internal Audit Competency Framework emphasizes documentation as a core skill for entry-level auditors.
Other Responsibilities:
Leadership: Typically a responsibility for more experienced auditors.
Analysis and Reporting: While entry-level auditors may assist with analysis and reporting, these tasks are generally more advanced and require a deeper understanding of audit processes.

NEW QUESTION 7

Which of the following statements is true regarding management's use of judgment to design, implement, and conduct internal control?

- A. The use of judgment enhances management's ability to make better decisions about internal control, but cannot guarantee perfect outcomes.
- B. Introducing judgment generally diminishes management's ability to make good decisions about internal control.
- C. It is inappropriate for management to exercise judgment in areas such as specifying and using suitable accounting principles.
- D. It is inappropriate for management to exercise judgment in assessing whether components are present, functioning, and operating together.

Answer: A

Explanation:

Management's use of judgment in designing, implementing, and conducting internal control is crucial for adapting to unique circumstances and complexities within an organization.
? Enhanced Decision-Making: Judgment allows management to tailor controls to the specific risks and operational realities of the organization, improving overall effectiveness.
? Limitations: While judgment improves decision-making, it cannot eliminate all risks or guarantee perfect outcomes due to inherent uncertainties and limitations in predicting all possible scenarios.
? Appropriate Use: It is appropriate for management to use judgment in applying accounting principles and assessing internal controls' presence and functioning.
? Inappropriateness: It would be incorrect to say that judgment diminishes decision-making capabilities or is inappropriate for assessing internal control components.
References:
? "Internal Control – Integrated Framework" by COSO, which highlights the importance and limitations of judgment in internal control processes.

NEW QUESTION 8

According to ISO 31000, which of the following statements is correct?

- A. The board is responsible for setting the organizational attitude through tone at the top.
- B. The internal audit activity will provide assurance over operating effectiveness but not over the design of risk management activities.
- C. The internal audit activity can give objective assurance on any part of the risk management framework for which it is responsible.
- D. The framework is designed to be effective for organizations no matter how small.

Answer: D

Explanation:

According to ISO 31000, the risk management framework is scalable and applicable to organizations of all sizes, including small entities. The framework's principles are designed to be flexible and adaptable, ensuring they can be effectively implemented regardless of the organization's size.
? Scalability: The principles and guidelines of ISO 31000 can be tailored to fit the specific context, resources, and complexity of any organization, making it a universal standard.
? Flexibility: The framework supports organizations in integrating risk management practices into their operations at a level that suits their size and complexity.
? Effectiveness: Regardless of the organization's size, the framework aims to enhance risk management practices and support better decision-making.
References:
? "ISO 31000: Risk Management Guidelines," which outlines the applicability and flexibility of the framework for all organizations.

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

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 10

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

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

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

Answer: B

Explanation:

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

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

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

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

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

References:

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

NEW QUESTION 15

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 17

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 22

Which of the following statements is true regarding engagement planning?

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

Answer: C

Explanation:

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

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

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

NEW QUESTION 27

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

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

Answer: A

Explanation:

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

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

IIA Guidance on Analytical Procedures:

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

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

Other Statements:

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

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

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

NEW QUESTION 28

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

these costs?

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

Answer: D

Explanation:

? Introduction:

? Cost Characteristics:

? Options Analysis:

? Conclusion:

:

Cost Accounting Standards and Practices .

NEW QUESTION 33

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 38

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 43

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 47

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 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

For a new board chair who has not previously served on the organization's board, which of the following steps should first be undertaken to ensure effective leadership to the board?

- A. Chair should learn the current organizational culture of the company.
- B. Chair should learn the current risk management system of the company
- C. Chair should determine the appropriateness of the current strategic risks.
- D. Chair should gain an understanding of the needs of key stakeholders.

Answer: A

Explanation:

For a new board chair who has not previously served on the organization's board, the first step should be to learn the current organizational culture of the company. Understanding the culture is crucial for effective leadership and decision-making.

? Organizational Culture: It shapes the behavior, values, and practices within the company, and understanding it is essential for aligning the board's actions with the company's ethos.

? Leadership: A deep understanding of the culture helps the chair to lead more effectively, fostering a positive environment and ensuring cohesive governance.

? Strategic Alignment: Ensures that the board's strategies and policies are in sync with the organizational culture, promoting better implementation and acceptance.

References:

? "Corporate Governance: Principles and Practices," which highlights the importance of understanding organizational culture for effective board leadership .

NEW QUESTION 56

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 58

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 59

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:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 64

According to IIA guidance, which of the following objectives was most likely formulated for a non-assurance engagement?

- A. The internal audit activity will assess the effects of changes in maintenance strategy on the availability of production equipment
- B. The internal audit activity will inform management on the possible risks of moving the data warehouse to a cloud server maintained by a third party.
- C. The internal audit activity will ascertain whether the data center security arrangements are compliant with agreed terms
- D. The internal audit activity will ensure equipment downtime risks have been managed in accordance with the internal policy.

Answer: B

Explanation:

Non-Assurance Engagements: Non-assurance engagements focus on advisory and consulting services rather than providing an independent assessment. These engagements aim to add value by offering insights and recommendations to management. Objective Characteristics:

? Informing Management: Providing information on potential risks and advising on

risk management strategies is typical for non-assurance engagements. This helps management make informed decisions and manage risks effectively.

? Assessment and Compliance: Options A, C, and D are more aligned with

assurance engagements, where the internal audit activity provides an independent assessment or ensures compliance with policies and procedures.

IIA Guidance:

? Standard 2120 – Risk Management: Internal auditors must evaluate and contribute to the improvement of risk management processes, often through advisory services in non-assurance roles.

References:

? Non-assurance engagements focus on informing and advising management about risks, improvements, and strategic decisions, as exemplified by informing management about risks related to moving the data warehouse to a third-party cloud server.

NEW QUESTION 65

An organization does not have a formal risk management function. According to the Standards, which of the following are conditions where the internal audit activity may provide risk management consulting?

- * 1. There is a clear strategy and timeline to migrate risk management responsibility back to management.
- * 2. The internal audit activity has the final approval on any risk management decisions.
- * 3.The internal audit activity gives objective assurance on all parts of the risk management framework for which it is responsible.
- * 4.The nature of services provided to the organization is documented in the internal audit charter.

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

Answer: A

Explanation:

Conditions for Risk Management Consulting by Internal Audit:

? Strategy and Timeline for Migration: The internal audit activity can provide risk management consulting if there is a clear strategy and timeline to transfer risk management responsibilities back to management. This ensures a temporary arrangement with a defined end goal.

? Documentation in Internal Audit Charter: The nature of services provided, including risk management consulting, must be documented in the internal audit charter. This formalizes the internal audit activity's role and ensures transparency and alignment with organizational governance.

IIA Standards:

? Standard 1130 – Impairment to Independence or Objectivity: When internal auditors perform risk management roles, it must not impair their objectivity. Clear documentation and a transition strategy mitigate potential conflicts of interest.

? Standard 2050 – Coordination and Reliance: Internal auditors must coordinate with other assurance providers, ensuring roles are clear and documented.

Inappropriate Conditions:

? Final Approval on Risk Management Decisions: The internal audit activity should not have final approval on risk management decisions, as this impairs independence and objectivity.

? Objective Assurance on Own Work: Providing objective assurance on parts of the risk management framework for which the internal audit activity is responsible creates a conflict of interest.

References:

? The conditions under which internal audit can provide risk management consulting must include a clear strategy for migrating responsibilities back to management and documentation in the internal audit charter to ensure transparency and avoid conflicts of interest.

NEW QUESTION 66

A chief audit executive (CAE) identifies that the internal audit activity lacks a necessary skill to perform a management request for a consulting engagement. According to IIA guidance, which of the following is the most appropriate action the CAE should take regarding the request?

- A. Assign the engagement to a more senior internal auditor.
- B. Decline the engagement request.
- C. Allow the internal auditors to acquire the needed skills while performing the engagement.
- D. Supervise the assigned internal auditors throughout the engagement.

Answer: B

Explanation:

According to the IIA's Standards, specifically Standard 1210 - Proficiency, internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. If the internal audit activity lacks the necessary skill set to conduct a requested consulting engagement, the most appropriate action for the CAE is to decline the engagement request. This ensures that the internal audit activity does not compromise the quality and effectiveness of its services.

Reference: IIA Standard 1210 - Proficiency

NEW QUESTION 68

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 72

The internal audit activity is planning an assurance engagement for a foreign subsidiary. According to IIA guidance, which of the following would be included in the preliminary communication to management of the area under review?

- A. The scope of the engagement, the estimated time frame, and the names of the auditors.
- B. The estimated time frame, the names of the auditors, and the resources and travel budget.
- C. The names of the auditors, the resources and travel budget, and the scope of the engagement.
- D. The resources and travel budget, the scope of the engagement, and the estimated time frame.

Answer: A

Explanation:

? Preliminary Communication: Preliminary communication to management of the area under review is essential in setting clear expectations and ensuring transparency regarding the upcoming audit.

? Key Elements to Include:

? IIA Guidance: According to the IIA standards, communicating these elements helps in building a cooperative relationship and ensures that there are no misunderstandings regarding the audit process.

References:

? IIA Standard 2201 – Planning Considerations .

NEW QUESTION 76

Which of the following best describes the guideline for preparing audit engagement workpapers?

- A. Workpapers should be understandable to the auditor in charge and the chief audit executive.
- B. Workpapers should be understandable to the audit client and the board.
- C. Workpapers should be understandable to another internal auditor who was not involved in the engagement.

D. Workpapers should be understandable to external auditors and regulatory agencies

Answer: C

Explanation:

The guidelines for preparing audit engagement workpapers emphasize clarity, completeness, and accuracy to ensure that they can be easily understood and used by others within the auditing function.

? Option A: Workpapers should be understandable to the auditor in charge and the chief audit executive.

? Option B: Workpapers should be understandable to the audit client and the board.

? Option C: Workpapers should be understandable to another internal auditor who was not involved in the engagement.

? Option D: Workpapers should be understandable to external auditors and regulatory agencies.

Reference:

According to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2330 -

"Documenting Information," internal auditors must document relevant information to support the conclusions and engagement results. The documentation must be sufficiently detailed to allow another internal auditor with no previous connection to the engagement to understand the work performed, evidence obtained, and conclusions reached.

NEW QUESTION 79

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 80

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 83

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 84

A chief audit executive (CAE) following up on action plans from previously completed audits identifies that management has determined that certain action plans are no longer necessary. If the CAE disagrees with management's decision, which of the following is the most appropriate next step for the CAE to take?

- A. The CAE must discuss the matter with senior management.
- B. The CAE must discuss the matter with key shareholders.
- C. The CAE must discuss the matter with legal counsel.
- D. The CAE must discuss the matter with the board.

Answer: D

Explanation:

? Introduction:

? Escalation Process:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides .

NEW QUESTION 88

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

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

Answer: C

Explanation:

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

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

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

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

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

Reference:

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

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

NEW QUESTION 90

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 93

Which of the following would be the most effective fraud prevention control?

- A. Email alert sent to management for checks issued over \$100,000.
- B. Installation of a video surveillance system in a warehouse prone to inventory loss.
- C. New hire training to explain fraud and employee misconduct.
- D. Daily report that identifies unsuccessful system log-in attempts.

Answer: C

Explanation:

Training new hires on fraud and employee misconduct is a proactive measure that raises awareness and educates employees about the organization's policies and the consequences of fraudulent behavior.

Such training helps create a culture of integrity and compliance, making employees less likely to engage in or tolerate fraud.

Continuous education and reinforcement of ethical behavior are essential components of an effective fraud prevention strategy.

NEW QUESTION 94

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 99

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

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

Answer: C

Explanation:

? Introduction:

? Importance of Reporting:

? Options Analysis:

? Conclusion:

:

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

NEW QUESTION 102

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 107

A newly appointed chief audit executive (CAE) started analyzing the organization's policies in an attempt to customize them to address internal audit specifics. Which of the following organizationwide practices is most likely to be acceptable to the CAE?

- A. Internal auditors' performance evaluation is primarily based on both client satisfaction surveys and cost savings identified from the audits
- B. Standard training for each employee, including internal auditors, is 10 hours per year.
- C. To enhance efficiency, internal auditors should not be rotated regularly among engagements
- D. Hiring practices include requiring potential auditors to disclose any significant stock ownership in the organization.

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 111

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 112

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 116

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

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

Answer: C

Explanation:

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

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

NEW QUESTION 117

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 118

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 121

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