



**IIA**

## **Exam Questions IIA-CHAL-QISA**

Qualified Info Systems Auditor CIA Challenge Exam

### NEW QUESTION 1

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

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

**Answer: C**

#### Explanation:

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

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

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

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

### NEW QUESTION 2

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

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

**Answer: A**

#### Explanation:

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

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

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

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

References:

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

### NEW QUESTION 3

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

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

**Answer: C**

#### Explanation:

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

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

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

: IIA Standard 2200 - Engagement Planning.

### NEW QUESTION 4

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

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

**Answer: C**

#### Explanation:

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

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

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

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

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

References:

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

#### NEW QUESTION 5

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 6

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 7

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 8

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 9

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 10

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 10

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

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

**Answer: C**

#### Explanation:

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

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

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

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

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

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

#### NEW QUESTION 15

In which scenario might it be considered problematic for the chief audit executive (CAE) to provide assurance services over the payroll function?

- A. The CAE previously undertook a consulting assignment in that area to improve processes.
- B. A couple of years ago, the CAE performed accounting functions for the payroll department.
- C. Prior to becoming the CAE, the CAE was the payroll manager.
- D. The assurance review was initiated following issues identified during a consulting assignment requested by management.

**Answer: C**

#### Explanation:

? Introduction:

? Scenario Analysis:

? Conclusion:

:

IIA's International Standards for the Professional Practice of Internal Auditing, Standard 1130: Impairment to Independence or Objectivity.

#### NEW QUESTION 17

Which of the following best describes the internal audit activity's responsibility within a risk and control framework?

- A. The internal audit activity constitutes the first line of defense in effective risk management.
- B. The internal audit activity provides direction regarding internal controls implementation.
- C. The internal audit activity verifies that management has met its responsibility for implementing effective controls.
- D. The internal audit activity implements the internal control framework and advises management regarding best practices

**Answer: C**

#### Explanation:

? Introduction:

? Responsibilities of Internal Audit:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides .

#### NEW QUESTION 21

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

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

**Answer: D**

#### Explanation:

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

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

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

#### NEW QUESTION 25

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

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

**Answer: B**

#### Explanation:

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

Reference: Maslow's Hierarchy of Needs Theory

#### NEW QUESTION 30

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

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

**Answer:**

B

**Explanation:**

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

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

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

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

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

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

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

Comparison to Other Methods:

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

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

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

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

**NEW QUESTION 35**

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

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

**Answer: C**

**Explanation:**

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

: The practice of matching current production estimates with the materials requirements plan (MRP) aligns with standard audit procedures for validating the accuracy and relevance of system-generated purchase orders.

**NEW QUESTION 38**

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 IA 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 42**

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 47

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

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

**Answer: B**

#### Explanation:

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

Cost Leadership Strategy:

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

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

Comparison with Other Strategies:

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

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

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

IIA Guidance and References:

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

#### NEW QUESTION 51

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

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

**Answer: B**

#### Explanation:

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

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

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

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

References:

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

#### NEW QUESTION 56

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 60**

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

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

**Answer:** A

**Explanation:**

Conducting a documented skills assessment helps in identifying the existing competencies and any gaps within the internal audit team.

Post-audit surveys can provide feedback on the performance and areas for improvement, which can be used to further refine the skills and competencies of the audit staff (Ref: [16+source])

**NEW QUESTION 64**

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 69**

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 71**

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 75**

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 78**

Which of the following activities is most likely to require a fraud specialist to supplement the knowledge and skills of the internal audit activity?

- A. Planning an engagement of the area in which fraud is suspected.
- B. Employing audit tests to detect fraud
- C. Interrogating a suspected fraudster.
- D. Completing a process review to improve controls to prevent fraud.

**Answer: C**

**Explanation:**

Specialized Knowledge: Interrogating a suspected fraudster requires specialized knowledge and skills that go beyond the typical expertise of internal auditors. This includes understanding interrogation techniques, legal implications, and psychological aspects. Fraud Specialist: A fraud specialist is trained in conducting investigations, including interrogations, and can provide valuable insights and evidence in cases of suspected fraud. IIA Standards: According to Standard 1210.A2, internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Collaborative Approach:

? Fraud Investigations: Engaging a fraud specialist ensures that the investigation is conducted thoroughly and professionally, adhering to legal and ethical standards.

? Support to Internal Audit: The fraud specialist can provide support and guidance to the internal audit activity, enhancing the overall effectiveness of the fraud investigation.

References:

? Employing a fraud specialist to interrogate a suspected fraudster ensures that the investigation is handled with the necessary expertise and legal compliance, thereby increasing the chances of uncovering the truth and taking appropriate actions.

**NEW QUESTION 79**

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

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

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

D. 2 and 4.

**Answer: C**

**Explanation:**

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

? Independent Review of Service Provider: Determine whether an independent

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

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

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

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

**NEW QUESTION 80**

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 84**

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 86**

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

A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.

B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.

C. The assigned internal auditor must not assume management responsibilities while performing the engagement.

D. The assigned internal auditor must maintain objectivity while performing the engagement

**Answer: C**

**Explanation:**

? Introduction:

? Role of Internal Auditors in Assurance Engagements:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

#### NEW QUESTION 89

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 92

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

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

**Answer:** C

#### **Explanation:**

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

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

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

References:

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

#### NEW QUESTION 93

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