

IIA

Exam Questions IIA-CHAL-QISA

Qualified Info Systems Auditor CIA Challenge Exam



NEW QUESTION 1

Which of the following types of policies best helps promote objectivity in the internal audit activity??s work?

- A. Policies that are distributed to all members of the internal audit activity and require a signed acknowledgment.
- B. Policies that match internal auditors' performance with feedback from management of the area under review
- C. Policies that keep internal auditors in areas where they have vast audit expertise.
- D. Policies that provide examples of inappropriate business relationships

Answer: D

Explanation:

Promoting objectivity in internal auditing involves ensuring that auditors avoid conflicts of interest and maintain independence in both fact and appearance. Policies that clearly define and give examples of inappropriate business relationships help auditors understand and avoid situations that could impair their objectivity.

: IIA Standard 1120 (Individual Objectivity) emphasizes the importance of internal auditors maintaining an unbiased mindset and avoiding conflicts of interest.

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 most appropriately justifies the CEO??s decision that the internal audit activity shall be responsible for risk management and Investigation at multinational organization?

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

Answer: B

Explanation:

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

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

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

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

References:

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

NEW QUESTION 4

When reviewing workpapers, engagement supervisors may ask for additional evidence or clarification via review notes. According to IIA guidance, which of the following statements is true regarding the engagement supervisors review notes?

- A. The review notes may be cleared from the final documentation once the engagement supervisors concerns have been addressed
- B. Management of the area under review must address the engagement supervisors review notes before the audit report can be finalized.
- C. The chief audit executive must initial or sign the engagement supervisors review notes to provide evidence of appropriate engagement supervision.
- D. Review notes provide documented proof that the engagement is supervised properly and must be retained for the quality assurance and improvement program

Answer: A

Explanation:

? Introduction:
? IIA Guidance on Review Notes:
? Options Analysis:
? Conclusion:
:IIA??s International Professional Practices Framework (IPPF).

NEW QUESTION 5

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 6

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

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

Answer: C

Explanation:

CSR Policy Development: In developing a Corporate Social Responsibility (CSR) policy, it is important that the principles of CSR are communicated and understood throughout the organization.

Integration into Decision-Making: Management??s responsibility includes ensuring that CSR principles are not only communicated but also integrated into the organization's decision-making processes at all levels. This ensures that CSR is part of the organizational culture and operational strategies.

Board??s Role: While the board has a role in overseeing and ensuring that CSR objectives are established and risks are managed, the day-to-day responsibility for integrating CSR into business operations lies with management.

IIA Guidance: According to IIA guidance, internal auditors should evaluate the design, implementation, and effectiveness of the organization??s ethics-related objectives, programs, and activities, which include CSR initiatives (Standard 2110 - Governance).

References:

? Effective communication and integration of CSR principles ensure that the organization operates in a socially responsible manner, aligning its business practices with societal expectations and contributing to sustainable development.

NEW QUESTION 7

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 8

Who is responsible for ensuring internal auditors continuing professional development*

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

Answer: A

Explanation:

? Introduction:

? Responsibility for CPD:

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

NEW QUESTION 9

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 statements about analytical procedures is true?

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

Answer: A

Explanation:

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

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

IIA Guidance on Analytical Procedures:

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

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

Other Statements:

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

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

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

NEW QUESTION 10

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

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

Answer: D

Explanation:

? **Introduction:**

? **Types of Action Plans:**

? **Options Analysis:**

? **Conclusion:**

:

Internal Audit Standards and Practice Guides .

NEW QUESTION 14

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

- A. Develop a comparison of the costs incurred with similar costs incurred by other organizations

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

Answer: B

Explanation:

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

? Government Index Comparison: Comparing the organization's increase in health-

care costs with a relevant government index provides a benchmark to assess whether the cost increases are in line with broader economic trends.

? Claims Review: While reviewing all claims could help identify specific

overpayments, it is more labor-intensive and less effective for evaluating overall reasonableness.

? Competitive Bids: Obtaining bids from other health-care administrators might

control future costs but does not evaluate the reasonableness of past cost increases.

? Industry Comparison: Comparing costs with those incurred by similar

organizations could be useful but might not provide a standardized measure like a government index.

References:

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

NEW QUESTION 18

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

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

Answer: C

Explanation:

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

? Direct Communication: Private meetings with the board allow the CAE to discuss

audit findings, concerns, and other important matters without management's influence, thereby preserving the objectivity and independence of the internal audit function.

? Board Support: This direct line of communication helps to secure the board's

support for the internal audit activity, which is critical for its effective functioning.

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

References:

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

NEW QUESTION 22

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

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

Answer: A

Explanation:

The planning memorandum serves as a comprehensive blueprint for an audit engagement, outlining the specific steps, procedures, and strategies that will be employed to carry out the audit. According to IIA guidance, the purpose of this document is to ensure that the audit team is well-prepared and that the audit process is systematic and thorough.

? Documentation of Audit Steps and Procedures: The primary purpose of a planning

memorandum is to detail the steps and procedures that the audit team will follow. This ensures consistency and clarity throughout the audit process and provides a clear framework for team members to follow.

Reference: IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Standard 2201 – Planning Considerations, which states that the internal auditor must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

Preparation and Coordination: It serves as a preparatory document that helps in coordinating the activities of the audit team, ensuring that everyone is aware of their roles and responsibilities.

Practical Example: If an audit is being conducted on the financial reporting processes, the planning memorandum would include specific procedures for testing internal controls over financial reporting, timelines for each phase of the audit, and responsibilities assigned to each team member.

Risk Management: While it includes information on preliminary risks, its main focus is on documenting the audit steps rather than managing risks or existing measures, which would be covered in other documents or sections of the audit plan.

Clarification: Options B, C, and D may include elements found within broader audit

planning, but the planning memorandum specifically focuses on the procedural roadmap.

Conclusion: The correct answer is A, as the planning memorandum's primary function is to document the audit steps and procedures to be performed, ensuring a structured and organized approach to the audit engagement.

NEW QUESTION 27

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:

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

NEW QUESTION 32

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

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

Answer: B

Explanation:

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

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

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

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

References:

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

NEW QUESTION 37

An internal auditor is performing testing to gather evidence regarding an organization's inventory account balance and is mindful of the possibility that the sample used might support the conclusion that the recorded account balance is not materially misstated when, in fact, it is. The auditor's concern best describes which of the following risks?

- A. Incorrect rejection risk.
- B. Incorrect acceptance risk.
- C. Tolerable misstatement risk
- D. Anticipated misstatement risk

Answer: B

Explanation:

? Introduction:

? Understanding Incorrect Acceptance Risk:

? Options Analysis:

? Conclusion:

:

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NEW QUESTION 38

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

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

Answer: B

Explanation:

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

References:

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

NEW QUESTION 39

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 44

Which of the following is an example of a properly supervised engagement?

A. Auditors are asked to keep a daily record of their activity for review by the auditor in charge following the engagement.

B. The senior internal auditor requires each auditor to review and initial colleagues' workpapers for completeness and format

C. A new internal auditor is accompanied by an experienced auditor during a highly sensitive fraud investigation.

D. The auditor in charge provides reasonable assurance that engagement objectives were met

Answer: D

Explanation:

Supervision in Internal Audit: Effective supervision ensures that the engagement is carried out according to plan, objectives are met, and quality standards are maintained. It involves guiding, mentoring, and reviewing the work of auditors throughout the engagement.

IIA Standards:

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

? Proper supervision includes overseeing the engagement, providing direction, and ensuring that work complies with standards and achieves engagement objectives.

Examples of Proper Supervision:

? Reasonable Assurance: The auditor in charge providing reasonable assurance that engagement objectives were met is a fundamental aspect of effective supervision. It ensures that the engagement delivers the intended outcomes and adheres to quality standards.

? Daily Records and Workpaper Review: Options A and B involve administrative tasks and peer review, which are supportive but do not alone constitute comprehensive supervision.

? Accompanied Training: Option C involves on-the-job training, which is beneficial but not the primary aspect of engagement supervision.

NEW QUESTION 45

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 47

Which of the following statements is true regarding partnership liquidation?

A. Operations can continue after the liquidation, if all partners agree.

B. Partnership liquidation ends both the legal and economic life of an entity

C. Partnership liquidation occurs when there is capital deficiency.

D. When a partnership is liquidated, each partner pays creditors from cash received

Answer: B

Explanation:

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

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

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

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

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

References:

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

NEW QUESTION 48

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

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

Answer: B

Explanation:

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

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

References:

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

NEW QUESTION 53

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

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

Answer: B

Explanation:

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

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

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

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

References:

? IIA Standard 1210 – Proficiency .

NEW QUESTION 55

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

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

Answer: B

Explanation:

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

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

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

NEW QUESTION 60

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 65

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 68

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 72

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

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

Answer: C

Explanation:

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

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

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

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

References:

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

NEW QUESTION 77

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

- A. A description of their job responsibilities.
- B. A non-disclosure agreement
- C. An annual declaration of commitment to The IIA's Code of Ethics.
- D. The internal audit charter

Answer: C

Explanation:

? Professional Responsibility: Internal auditors are expected to demonstrate their commitment to professional standards and ethics.

? Code of Ethics: The IIA's Code of Ethics outlines principles that internal auditors must follow, including integrity, objectivity, confidentiality, and competency.

? Annual Declaration: Signing an annual declaration reinforces the auditor's commitment to these principles and ensures ongoing adherence to the professional standards.

? Demonstration of Due Care: By signing this declaration, auditors formally acknowledge their responsibility to uphold ethical standards, which is a demonstration of due professional care.

References:

? The IIA's Code of Ethics.

? The IIA's International Standards for the Professional Practice of Internal Auditing.

NEW QUESTION 78

According to IIA guidance, which of the following statements is true regarding reporting the results of the quality assurance and improvement program?

- A. Results of internal assessments need to be reported to the board at least once every five years.
- B. The external assessor must present the findings from the external assessment to senior management and the board upon completion.
- C. Deficiencies within the internal audit activity must be reported to the board as soon as they are noted
- D. Results of ongoing monitoring of the internal audit activity's performance must be reported to senior management and the board at least annually

Answer: D

Explanation:

The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) provide guidance on the reporting requirements of the quality assurance and improvement program. According to Standard 1320, "The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board." This communication must include the results of both internal and external assessments and ongoing monitoring. Specifically, the results of ongoing monitoring of the internal audit activity's performance should be reported to senior management and the board at least annually. This ensures that the internal audit activity maintains its proficiency, enhances its effectiveness, and complies with the Standards.

Reference: IIA Standard 1320

NEW QUESTION 83

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 86

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 89

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

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

Answer: D

Explanation:

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

References:

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

NEW QUESTION 91

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

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

Answer: C

Explanation:

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

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

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

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

References:

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

NEW QUESTION 94

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

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

Answer: D

Explanation:

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

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

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

NEW QUESTION 97

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 102

Which of the following best describes why an internal audit activity would consider sending written preliminary observations to the audit client?

- A. Written observations allow for more interpretation.
- B. Written observations help the internal auditors express the significance.
- C. Written and verbal observations are equally effective.
- D. Written observations limit premature agreement

Answer: C

Explanation:

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

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

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

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

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

NEW QUESTION 105

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