

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 steps should precede the development of audit engagement objectives?

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

Answer: C

Explanation:

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

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

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

: IIA Standard 2200 - Engagement Planning.

NEW QUESTION 4

A 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 5

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

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

Answer: C

Explanation:

? ISO 31000 Context: ISO 31000 provides guidelines on risk management, emphasizing the importance of understanding the external context.

? External Context: This includes external factors such as regulatory and competitive environments that can impact the organization's risk profile.

? Regulatory Environment: Understanding regulations helps the organization ensure compliance and avoid legal risks.

? Competitive Environment: Analyzing the competitive environment allows the organization to anticipate market changes and manage competitive risks.

References:

? ISO 31000 Risk Management Guidelines.

NEW QUESTION 6

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

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

Answer: D

Explanation:

According to ISO 31000, the risk management framework is scalable and applicable to organizations of all sizes, including small entities. The framework's principles are designed to be flexible and adaptable, ensuring they can be effectively implemented regardless of the organization's size.

? Scalability: The principles and guidelines of ISO 31000 can be tailored to fit the specific context, resources, and complexity of any organization, making it a universal standard.

? Flexibility: The framework supports organizations in integrating risk management practices into their operations at a level that suits their size and complexity.

? Effectiveness: Regardless of the organization's size, the framework aims to enhance risk management practices and support better decision-making.

References:

? "ISO 31000: Risk Management Guidelines," which outlines the applicability and flexibility of the framework for all organizations .

NEW QUESTION 7

According to IIA guidance, which of the following is a limitation of a heat map?

- A. Impact cannot be represented on a heat map unless it is quantified in financial terms
- B. Impact and likelihood at times cannot be differentiated as to which is more important.
- C. A heat map cannot be used unless a risk and control matrix has been developed.
- D. Qualitative factors cannot be incorporated into a heat map

Answer: B

Explanation:

? Introduction:

? Limitations of Heat Maps:

? Options Analysis:

? Conclusion:

:Internal Audit Standards and Practice Guides .

NEW QUESTION 8

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 9

Which of the following must be in existence as a precondition to developing an effective system of internal controls?

- A. A monitoring process
- B. A risk assessment process.
- C. A strategic objective-setting process.
- D. An information and communication process

Answer: B

Explanation:

? Risk Assessment Process: A risk assessment process is essential for identifying, analyzing, and managing risks that could prevent the achievement of objectives. It is a critical component in developing an effective system of internal controls.

? COSO Framework: The Committee of Sponsoring Organizations (COSO) Internal Control Framework outlines risk assessment as a fundamental part of internal control systems.

? Other Preconditions:

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COSO Internal Control Framework.

NEW QUESTION 10

Which of the following actions should the internal audit activity take during an audit engagement when examining the effectiveness of risk management processes?

- A. Evaluate how the organization manages fraud risk.
- B. Establish procedures for improving risk management processes.
- C. Ensure risk responses are aligned with industry standards
- D. Verify that organizational objectives are aligned with each departments objectives.

Answer: A

Explanation:

Risk Management Evaluation: During an audit engagement examining the effectiveness of risk management processes, the internal audit activity should focus on evaluating how the organization manages various types of risks, including fraud risk.

Fraud Risk Management: This involves assessing the organization's mechanisms for identifying, assessing, and responding to fraud risks. It also includes reviewing the effectiveness of controls in place to prevent and detect fraudulent activities.

IIA Standards: Standard 2120 – Risk Management emphasizes that internal auditors must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

Comprehensive Approach:

? Risk Assessment: Ensuring that the organization conducts thorough risk assessments to identify potential fraud risks.

? Control Environment: Evaluating the control environment to ensure it supports ethical behavior and reduces opportunities for fraud.

? Fraud Prevention and Detection: Reviewing the policies and procedures in place to prevent and detect fraud, including whistleblower mechanisms and fraud response plans.

References:

? Internal auditors play a crucial role in assessing the adequacy of fraud risk management, which is integral to the overall risk management process. By evaluating fraud risk management, auditors can provide assurance that the organization is effectively mitigating fraud risks.

NEW QUESTION 10

Which of the following is an advantage of utilizing an external fraud specialist in a suspected fraud investigation?

- A. increased access to the organization's employees.
- B. Increased ability to preserve evidence and the chain of command.
- C. Increased ability to scrutinize the organization's key business processes.
- D. increased access to the organization's software and proprietary data.

Answer: B

Explanation:

? Introduction:

? Advantages of External Fraud Specialists:

? Options Analysis:

? Conclusion:

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NEW QUESTION 13

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 15

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 17

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 20

When is an organic organizational structure likely to be more successful than a mechanistic organizational structure?

- A. When a manufacturing organization has stable demand for its products.
- B. When an organization is subjected to strong political and social pressures
- C. When a manufacturer has reliable resources and suppliers.
- D. When an organization is infrequently affected by technological advances

Answer: B

Explanation:

An organic organizational structure is more flexible and adaptive compared to a mechanistic structure. It is characterized by less formalization, decentralized decision-making, and a greater reliance on lateral communication. This type of structure is beneficial in environments that are dynamic and uncertain, such as when an organization faces strong political and social pressures. The flexibility of an organic structure allows the organization to respond more effectively to external changes and pressures.

: This concept is supported by organizational theory literature, which suggests that organic structures are better suited for turbulent and changing environments where quick adaptation is necessary.

NEW QUESTION 23

Which of the following best describes the risk contained in an initial public offering for a new stock?

- A. Residual risk.
- B. Net risk.
- C. Inherent risk.
- D. Underlying risk

Answer: C

Explanation:

? Introduction:

? IPO Risks:

? Options Analysis:

? Conclusion:

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Audit Standards and Securities Regulation Guidelines

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 28

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

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

Answer: B

Explanation:

When internal audit resources are limited, it is crucial to focus on the most critical aspects of the control environment. Preventive key controls are designed to prevent errors or irregularities from occurring, which are essential for maintaining a strong control environment. Given the mature control environment of the organization, prioritizing preventive key controls ensures that potential issues are addressed before they materialize, providing a proactive approach to risk management.

Reference: IIA Practice Guide "Assessing the Adequacy of Internal Controls"

NEW QUESTION 33

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 37

Which of the following would be considered a violation of The IIA's mandatory guidance on independence?

- A. The chief audit executive (CAE) reports functionally to the board and administratively to the chief financial officer
- B. The board seeks senior management's recommendation before approving the annual salary adjustment of the CAE.
- C. The CAE confirms to the board, at least once every five years, the organizational independence of the internal audit act/vity.

D. The CAE updates the internal audit charter and presents it to the board for approval periodically, not on a specific timeline

Answer: B

Explanation:

? Independence Requirement: The IIA's mandatory guidance emphasizes the importance of the CAE's independence to ensure unbiased internal audit activities.
? Conflict of Interest: Seeking senior management's recommendation for the CAE's salary adjustment can create a conflict of interest and potentially compromise the CAE's independence.
? Best Practices: To maintain independence, the CAE's compensation should be determined by the board without influence from senior management.
? Standard Compliance: According to the IIA's Attribute Standard 1110 – Organizational Independence, the CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.
References:
? IIA Standard 1110 – Organizational Independence .

NEW QUESTION 41

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 44

The board of directors of a global organization has found an increased number of reported cases of unethical practices since last year. To assist the board in gaining a better understanding of the degree of ethics awareness within the organization, which of the following actions should be undertaken?

- A. Request the internal audit activity to perform an ethics-related assurance engagement.
- B. Offer in-house ethics-related training seminars for employees to attend
- C. Reaffirm the importance of the organization's code of ethics to all employees
- D. Conduct an organization wide employee survey on ethical practices.

Answer: D

Explanation:

To assist the board of directors in understanding the degree of ethics awareness within the organization, an organization-wide employee survey on ethical practices (option D) is the most effective action. Here's why:

? Direct Insight from Employees: Surveys can capture the perspectives of a broad employee base, providing direct insights into the awareness and attitudes towards ethics within the organization.

? Quantitative and Qualitative Data: A well-designed survey can gather both quantitative data (e.g., percentage of employees aware of the code of ethics) and qualitative data (e.g., specific instances of ethical dilemmas faced by employees).

? Identifying Areas of Improvement: Surveys can identify specific areas where employees feel the organization is lacking in terms of ethical practices, which can guide targeted improvements.

? Confidentiality and Anonymity: Surveys often ensure confidentiality and anonymity, encouraging more honest and comprehensive responses from employees, which might not be achievable through other means.

? Comprehensive Scope: Compared to internal audits or training, surveys can provide a comprehensive overview of the entire organization's ethical climate, from various departments and levels.

This approach aligns with the best practices in internal auditing and organizational assessments as outlined by the Institute of Internal Auditors (IIA) and other related guidance.

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 49

Which of the following would most likely be found in an organization that uses a decentralized organizational structure?

- A. There is a higher reliance on organizational culture
- B. There are clear expectations set for employees.
- C. There are electronic monitoring techniques employed
- D. There is a defined code for employee behavior

Answer: A

Explanation:

Decentralized Structure: In a decentralized organizational structure, decision-making authority is distributed throughout various levels of the organization. This often leads to a greater reliance on organizational culture to guide employees' actions and ensure alignment with the organization's goals and values.

: Decentralization allows for more autonomy, making a strong organizational culture essential for cohesive operations (Management and Organizational Behavior textbooks).

Other Options:

Clear Expectations and Codes: These are important in any organizational structure but do not specifically characterize decentralization.

Electronic Monitoring: This can be used in both centralized and decentralized structures but is not a defining feature of decentralization.

NEW QUESTION 52

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

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

Answer: C

Explanation:

? Introduction:

? Nature of CSR Reporting:

? Options Analysis:

? Conclusion:

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Internal Audit Standards and Practice Guides

NEW QUESTION 56

In an assurance engagement focused on the adequacy of organizationwide risk management practices, which of the following best describes a primary area of interest for the engagement?

- A. The effectiveness of process-level and transaction-level controls.
- B. Conflicts of interest within the organizational structure of the senior management.
- C. The alignment of management decisions with the level of risk the organization is willing to accept.
- D. The actions of upper management in response to the internal audit acth/ity's reporting

Answer: C

Explanation:

Understanding the Engagement Scope: The primary area of interest in an assurance engagement focused on the adequacy of organization-wide risk management practices is to ensure that risk management is effectively integrated into the organization's decision-making processes. This involves evaluating whether management decisions are aligned with the organization's risk appetite, which is the amount of risk the organization is willing to accept in pursuit of its objectives.

Key Considerations:

? Effectiveness of Risk Management Framework: Ensuring that the risk management framework is robust and effectively implemented across the organization.

? Risk Appetite Alignment: Assessing if the decisions made by management are within the boundaries set by the organization's risk appetite statement.

? Strategic Objectives: Evaluating if the risk management practices support the achievement of the organization's strategic objectives.

IIA Standards: According to the IIA's International Standards for the Professional Practice of Internal Auditing, internal auditors must evaluate the effectiveness and

contribute to the improvement of risk management processes (Standard 2120 - Risk Management). References:

? The alignment of management decisions with the level of risk the organization is

willing to accept ensures that the organization does not take on more risk than it is prepared to handle, thereby protecting its assets and ensuring long-term sustainability.

? Effective risk management practices help in identifying, assessing, and mitigating

risks, which is crucial for the overall governance and operational effectiveness of the organization

NEW QUESTION 58

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

A. The internal audit activity will assess the effects of changes in maintenance strategy on the availability of production equipment

B. The internal audit activity will inform management on the possible risks of moving the data warehouse to a cloud server maintained by a third party.

C. The internal audit activity will ascertain whether the data center security arrangements are compliant with agreed terms

D. The internal audit activity will ensure equipment downtime risks have been managed in accordance with the internal policy.

Answer: B

Explanation:

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

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

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

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

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

IIA Guidance:

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

References:

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

NEW QUESTION 61

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

* 1. There is a clear strategy and timeline to migrate risk management responsibility back to management.

* 2. The internal audit activity has the final approval on any risk management decisions.

* 3. The internal audit activity gives objective assurance on all parts of the risk management framework for which it is responsible.

* 4. The nature of services provided to the organization is documented in the internal audit charter.

A. 1 and 4 only.

B. 2 and 4 only.

C. 1 and 3 only.

D. 2 and 3 only.

Answer: A

Explanation:

Conditions for Risk Management Consulting by Internal Audit:

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

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

IIA Standards:

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

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

Inappropriate Conditions:

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

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

References:

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

NEW QUESTION 66

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 68

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

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

Answer: B

Explanation:

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

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

NEW QUESTION 70

Internal auditors map a process by documenting the steps in the process, which provides a framework for understanding Which of the following is a reason to use narrative memoranda?

- A. To create a detailed risk assessment
- B. To identify individuals who perform key roles
- C. To explain a simple process.
- D. To document which outputs support other activities.

Answer: C

Explanation:

Step by Step Comprehensive Detailed Explanation with References:

? Introduction:

? Purpose of Narrative Memoranda:

? Options Analysis:

? Conclusion:

:

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NEW QUESTION 73

An internal auditor discovered fraud while performing an audit of an organization's procurement process. Which of the following describes the greatest benefit of using forensic auditing techniques in this scenario?

- A. Enhanced capability to prevent frauds from occurring.
- B. Greater assurance that procurement frauds will be detected in a timely manner
- C. Improved capability of evaluating fraud risks within the organization.
- D. Greater understanding of fraud through better evidence collection

Answer: D

Explanation:

Forensic auditing techniques provide a systematic approach to collecting and analyzing evidence related to fraud. The primary benefit of these techniques is the enhanced ability to gather comprehensive and detailed evidence, which leads to a greater understanding of how the fraud occurred and who was involved. This detailed evidence collection supports legal proceedings and helps in identifying control weaknesses that need to be addressed to prevent future frauds.

References:

? "Forensic Auditing: Principles and Practices," which outlines the importance of evidence collection in understanding and combating fraud.

NEW QUESTION 77

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 79

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 80

An internal audit activity has to confirm the validity of the activities reported by a grantee that received a charitable contribution from the organization. Which of the following methods would best help meet this objective?

- A. Visiting the grantee to assess whether the execution of the project was in line with the defined grant scope.
- B. Verifying that the grantee's final report is in line with what was depicted in the initial budget request.
- C. Reconciling general ledger accounts used by management of the area under review for reflecting expenses on charitable contributions
- D. Interviewing employees of the corporate affairs department, which is responsible for charitable activities

Answer: A

Explanation:

? Introduction:

? Effective Verification Methods:

? Options Analysis:

? Conclusion:

:

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NEW QUESTION 85

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 90

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 94

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 95

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:

:

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NEW QUESTION 96

Which of the following methods is most closely associated to year over year trends?

- A. Horizontal analysts
- B. Vertical analysis.
- C. Common-size analysis.
- D. Ratio analysis.

Answer: A

Explanation:

? Introduction:

? Year-over-Year Trends:

? Options Analysis:

? Conclusion:

:

Financial Analysis and Reporting Guidelines

NEW QUESTION 99

Which of the following statements is true regarding internal auditors and other assurance providers?

- A. Assurance providers who report to management and/or are part of management cannot provide control self-assessments services
- B. Internal auditors should always reperform and validate audit work completed by external assurance providers.
- C. Internal auditors may rely on the work of internal compliance teams to expand their coverage of the organization without increasing direct audit hours.
- D. Internal auditors can rely on the work of other assurance providers only if the other assurance providers report directly to the board

Answer: C

Explanation:

? Collaboration with Compliance Teams: Internal auditors often collaborate with internal compliance teams to leverage their work. This allows auditors to gain insights and expand their audit coverage efficiently.

? IIA Standards: According to the Institute of Internal Auditors (IIA), internal auditors can rely on the work of other assurance providers, including internal compliance teams, as long as the auditors assess the adequacy and competency of the compliance team's work.

? Efficiency in Audit Coverage: By relying on internal compliance teams, internal auditors can ensure comprehensive coverage of the organization without significantly increasing direct audit hours, thus enhancing efficiency.

: IIA Standard 2050 - Coordination and Reliance.

NEW QUESTION 102

What is the primary reason that audit supervision includes approval of the engagement report?

- A. To ensure the objectives of the area under review are met
- B. To ensure senior management supports the reports conclusions
- C. To ensure report style and grammar are appropriate.
- D. To ensure report findings are substantiated

Answer: D

Explanation:

The primary reason for audit supervision, including the approval of the engagement report, is to ensure that the findings presented in the report are substantiated by adequate and appropriate evidence. This step is crucial to maintain the credibility and reliability of the audit process and its outcomes.

? Substantiation of Findings: Ensuring that findings are substantiated helps in providing a clear and defensible basis for the conclusions and recommendations made in the report.

? Audit Quality: This step ensures the quality and integrity of the audit process, confirming that the evidence collected during the audit is sufficient and appropriate to support the findings.

? Credibility: By substantiating findings, the report gains credibility, which is essential for the stakeholders who rely on the audit report for decision-making.

References:

? "Internal Audit Standards and Procedures," which outlines the importance of evidence substantiation in audit reports .

NEW QUESTION 107

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