

# Exam Questions IIA-CHAL-QISA

Qualified Info Systems Auditor CIA Challenge Exam

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#### NEW QUESTION 1

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

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

**Answer:** C

#### Explanation:

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

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

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

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

#### NEW QUESTION 2

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 3

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

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

**Answer:** A

#### Explanation:

Role of CAE as Consultant: The chief audit executive (CAE) can act as a consultant to help management establish a risk management system. Their role should be facilitative rather than directive, ensuring that management owns the risk management process. Appropriate Tasks:

? Risk Workshops: Coordinating and facilitating risk workshops (option A) helps management identify and assess risks, allowing them to develop appropriate responses. This is a suitable task for the CAE.

? Risk Appetite and Indicators: Establishing risk appetite (option B) and setting risk indicators and mitigation plans (option C) are management's responsibilities.

? Reporting Risks: Determining the number of significant risks to report (option D) should also be a management function.

#### NEW QUESTION 4

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

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

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

**Answer: B**

#### Explanation:

Primary Responsibilities: For entry-level internal auditors, the primary responsibilities focus on learning and supporting tasks. Documentation is a key responsibility as it involves recording the findings and work performed during an audit engagement. This helps in building a foundation for understanding audit processes and methodologies.

: IIA's Global Internal Audit Competency Framework emphasizes documentation as a core skill for entry-level auditors.

Other Responsibilities:

Leadership: Typically a responsibility for more experienced auditors.

Analysis and Reporting: While entry-level auditors may assist with analysis and reporting, these tasks are generally more advanced and require a deeper understanding of audit processes.

#### NEW QUESTION 6

Which of the following statements is true regarding managements use of judgement to design, implement, and conduct internal control?

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

**Answer: A**

#### Explanation:

Management's use of judgment in designing, implementing, and conducting internal control is crucial for adapting to unique circumstances and complexities within an organization.

? Enhanced Decision-Making: Judgment allows management to tailor controls to the specific risks and operational realities of the organization, improving overall effectiveness.

? Limitations: While judgment improves decision-making, it cannot eliminate all risks or guarantee perfect outcomes due to inherent uncertainties and limitations in predicting all possible scenarios.

? Appropriate Use: It is appropriate for management to use judgment in applying accounting principles and assessing internal controls' presence and functioning.

? Inappropriateness: It would be incorrect to say that judgment diminishes decision-making capabilities or is inappropriate for assessing internal control components.

References:

? "Internal Control – Integrated Framework" by COSO, which highlights the importance and limitations of judgment in internal control processes.

#### NEW QUESTION 7

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 8

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 9**

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 10**

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

A. Creating a comprehensive reporting system for vendors to demonstrate their ongoing due diligence in network operations.

B. Drafting a strong contract that requires regular vendor control reports and a right-to-audit clause

C. Applying administrative privileges to ensure right-to-access controls are appropriate

D. Creating a standing cybersecurity committee to identify and manage risks related to data security.

**Answer:** B

**Explanation:**

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

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

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

Contract Management:

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

? Right-to-Audit Clause: This clause allows the organization to periodically audit the third party to ensure compliance with contractual obligations and to assess the effectiveness of their control environment.

References:

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

**NEW QUESTION 10**

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

A. The auditor should make a note of the issue for follow-up when employee travel expenses are audited.

B. The auditor should analyze trends and changes among the organization's suppliers over the past few years.

C. The auditor should investigate whether there are any special arrangements regarding senior management travel.

D. The auditor should analyze the list of destinations the department head visited to estimate typical costs

**Answer:** C

**Explanation:**

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

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

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

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

Other Options Considered:

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

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

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

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



#### NEW QUESTION 14

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

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

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

**Answer: B**

#### Explanation:

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

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

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

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

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

References:

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

#### NEW QUESTION 15

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

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

**Answer: B**

#### Explanation:

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

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

#### NEW QUESTION 17

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

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

**Answer: A**

#### Explanation:

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

Examples of Customer Departmentalization:

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

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

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

Comparison with Other Options:

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

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

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

References:

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

#### NEW QUESTION 18

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

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

**Answer: A**

#### Explanation:

? Professional Care:Ensuring that internal auditors demonstrate due professional care involves establishing clear policies and procedures that guide their activities.  
? Guidance and Standards:These policies and procedures help ensure that the internal audit activity adheres to professional standards and best practices.  
? Standard Compliance:According to the IIA??s Performance Standard 2040 – Policies and Procedures, the CAE must establish policies and procedures to guide the internal audit activity.  
? Quality Assurance:Properly developed policies and procedures contribute to the overall quality and effectiveness of the internal audit activity, ensuring that engagements are conducted with due professional care.  
References:  
? IIA Standard 2040 – Policies and Procedures .

#### NEW QUESTION 20

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:

:

Internal Audit Standards and Practice Guides .

#### NEW QUESTION 24

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 budgetand then aligned to the risk universe.
- B. The audit engagement objectives should be based on operational managements 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 29

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

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

**Answer:** D

#### Explanation:

? Introduction:

? Cost Characteristics:

? Options Analysis:

? Conclusion:

:

Cost Accounting Standards and Practices .

#### NEW QUESTION 34

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 39

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 42

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

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

**Answer:** C

#### Explanation:

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

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

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

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

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

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

#### NEW QUESTION 45

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

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

**Answer:** B

#### Explanation:

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

Efficiency and Effectiveness:

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

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

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

#### NEW QUESTION 46

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:

:

Audit Standards and Securities Regulation Guidelines

#### NEW QUESTION 47

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

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

**Answer: C**

#### Explanation:

? Introduction:

? Responsibilities of Internal Audit:

? Options Analysis:

? Conclusion:

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Internal Audit Standards and Practice Guides .

#### NEW QUESTION 52

Which of the following is an example of a directive control?

- A. Segregation of duties
- B. Exception reports
- C. Training programs,
- D. Supervisory review.

**Answer: C**

#### Explanation:

Directive controls are designed to encourage desired behavior or outcomes.

? Option A: Segregation of duties is a preventive control, not a directive control.

? Option B: Exception reports are detective controls.

? Option D: Supervisory review is also a preventive or detective control.

? Option C: Training programs are directive controls as they guide employees on the correct procedures and practices to follow.

#### NEW QUESTION 53

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 55

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:

:

Internal Audit Standards and Practice Guides .



#### NEW QUESTION 60

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 activity.
- 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 61

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 65

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 66

Which of the following statements best describes the difference between risk appetite and risk tolerance?

- A. Risk appetite applies to specific objectives, while risk tolerance refers to an organization's general attitude toward risk.
- B. Risk appetite refers to the degree of risk acceptance for a particular objective, while risk tolerance is one approach to risk management
- C. Risk appetite refers to an organization's general level of acceptance, while risk tolerance is a more specific and subordinate concept
- D. There is no significant difference between the two terms

**Answer:** C

**Explanation:**

? Definition of Risk Appetite: Risk appetite is the amount and type of risk an organization is willing to pursue or retain to achieve its objectives. It reflects the organization's overall approach to risk-taking and is typically articulated at the highest level of the organization.

Reference: COSO's Enterprise Risk Management Framework.

Definition of Risk Tolerance: Risk tolerance refers to the acceptable variation relative to the achievement of specific objectives. It is more granular and specific than risk appetite, detailing the levels of risk that are acceptable within the parameters set by the organization's risk appetite.

Reference: IIA's Practice Guide on Risk Management.

Distinguishing the Two Concepts: Risk appetite is broad and sets the overall boundaries for risk-taking, while risk tolerance is more specific, outlining acceptable risk levels for particular objectives within the broader risk appetite framework.

Practical Example: An organization may have a high risk appetite, accepting significant risks to achieve growth, but its risk tolerance for operational risks (such as system failures) may be low, indicating minimal acceptable deviations from expected performance.

Conclusion: The correct answer is C, as risk appetite represents the organization's general level of risk acceptance, whereas risk tolerance is more specific and detailed, falling under the broader scope of risk appetite.

**NEW QUESTION 69**

Which of the following statements is true regarding partnership liquidation?

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

**Answer: B**

**Explanation:**

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

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

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

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

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

References:

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

**NEW QUESTION 73**

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

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

**Answer: A**

**Explanation:**

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

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

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

**NEW QUESTION 76**

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 79**

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 84**

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

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

**Answer:** B

**Explanation:**

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

Reference: Maslow's Hierarchy of Needs Theory

**NEW QUESTION 89**

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

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

**Answer:** C

**Explanation:**

Step by Step Comprehensive Detailed Explanation with References:

? Introduction:

? Purpose of Narrative Memoranda:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides.

**NEW QUESTION 90**

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 92**

Which of the following is most appropriate for internal auditors to do during the internal audit recommendations monitoring process?

- A. Report the monitoring status to senior management when requested.
- B. Assist management with implementing corrective actions.
- C. Determine the frequency and approach to monitoring
- D. Include all types of observations in the monitoring process

**Answer:** C

**Explanation:**

? Introduction:

? Responsibilities in Monitoring:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides .

**NEW QUESTION 97**

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

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

**Answer:** C

**Explanation:**

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

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

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

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

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

Reference:

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

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

**NEW QUESTION 99**

A rapidly expanding retail organization continues to be tightly controlled by its original small management team. Which of the following is a potential risk in this vertically centralized organization?

- A. Lack of coordination among different business units
- B. Operational decisions are inconsistent with organizational goals.
- C. Suboptimal decision-making.
- D. Duplication of business activities.

**Answer:** C

**Explanation:**

? Introduction:

? Risk Analysis:

? Conclusion:

:

Organizational Structure and Internal Control Theory.

**NEW QUESTION 100**

An internal audit activity maintains a quality assurance and improvement program that includes annual self-assessments The internal audit activity includes in each engagement report a clause that the engagement is conducted in conformance with the International Standards for the Professional Practice of Internal Auditing (Standards). Which of the following justifies inclusion of this clause in the reports?

- A. Internal audit activity policies and engagement records provide relevant, sufficient, and competent evidence that the statement is correct.
- B. The audit committee has reviewed the annual self-assessment results and approved the use of the clause.
- C. The self-assessment results were validated by a qualified external review team three years prior.
- D. The internal audit charter, approved by the audit committee, requires conformance with the Standards

**Answer:** C

**Explanation:**

According to the IIA Standards, an internal audit activity must have an external assessment conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The validation by an external team ensures that the internal audit activity's self-assessments and quality assurance practices meet the required standards.

: IIA Standard 1312 (External Assessments) and IIA Standard 1320 (Reporting on the Quality Assurance and Improvement Program) provide detailed guidelines for this process.

**NEW QUESTION 104**

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 105**

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

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

**Answer:** B

**Explanation:**

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

Cost Leadership Strategy:

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

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

Comparison with Other Strategies:

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

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

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

IIA Guidance and References:

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

**NEW QUESTION 106**

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

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

**Answer:** C

**Explanation:**

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

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

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

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

References:

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

**NEW QUESTION 109**

Which of the following 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 111

The internal audit activity plans to assess the effectiveness of management's self-assessment activities regarding the risk management process. Which of the following procedures would be most appropriate to accomplish this objective?

- A. Review corporate policies and board minutes for examples of risk discussions.
- B. Conduct interviews with line and senior management on current practices.
- C. Research and review relevant industry information concerning key risks.
- D. Observe and test control and monitoring procedures and related reporting.

**Answer:** D

#### Explanation:

To assess the effectiveness of management's self-assessment activities regarding the risk management process, internal auditors should directly observe and test the control and monitoring procedures.

This hands-on approach allows auditors to verify the implementation and functionality of risk management controls and the accuracy of related reporting.

Direct observation and testing provide the most reliable evidence of the effectiveness of these procedures

#### NEW QUESTION 115

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

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

**Answer:** A

#### Explanation:

? Introduction:

? Effective Verification Methods:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides .

#### NEW QUESTION 119

Which of the following is true of matrix organizations?

- A. A unity-of-command concept requires employees to report technically, functionally, and administratively to the same manager.
- B. A combination of product and functional departments allows management to utilize personnel from various functions.
- C. Authority, responsibility, and accountability of the units involved may vary based on the project's life, or the organization's culture.
- D. it is best suited for firms with scattered locations or for multi-line, large-scale firms.

**Answer:** B

#### Explanation:

? Matrix Organization Structure: In matrix organizations, employees report to both functional and product managers. This dual reporting structure allows the organization to efficiently use its personnel across different projects and functions.

? Advantages of Matrix Structure:

? Unity-of-Command: Option A is incorrect because the unity-of-command principle is compromised in a matrix organization due to dual reporting lines.

? Authority and Accountability: Option C is correct to some extent but does not capture the primary benefit of resource utilization.

? Suitability: Option D refers to the best use cases for matrix structures, but option B provides a more comprehensive understanding of how matrix organizations function.

: Management and Organizational Behavior textbooks.

#### NEW QUESTION 121

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 126

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

- A. Review or establish a documented skills assessment of the internal audit staff and gather information from post-audit surveys.

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

**Answer:** A

**Explanation:**

Conducting a documented skills assessment helps in identifying the existing competencies and any gaps within the internal audit team. Post-audit surveys can provide feedback on the performance and areas for improvement, which can be used to further refine the skills and competencies of the audit staff (Ref: [16†source])

**NEW QUESTION 129**

Which of the following statements is most accurate with respect to the required elements of the quality assurance and improvement program?

- A. Internal assessments provide sufficient objectivity to provide evidence to the board that the internal audit activity understands the organization's control processes.
- B. Quality assessments focus on the internal audit activity's structure, relationships with stakeholders, compliance with the Standards, and internal audit staff proficiency.
- C. In order to comply with the Standards, the internal audit activity must obtain an objective assessment of its processes and function at least once a year.
- D. Internal auditors completing internal assessments must demonstrate certification to perform quality assessments.

**Answer:** B

**Explanation:**

? Understanding Quality Assessments: Quality assessments in internal audit activities are designed to evaluate various aspects such as the structure of the internal audit activity, relationships with stakeholders, compliance with the IIA Standards, and the proficiency of internal audit staff.

? Internal Assessments: These include ongoing monitoring of the performance of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

? External Assessments: External assessments should be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization to ensure objectivity and comprehensiveness.

? Focus Areas: Quality assessments should focus on compliance with the IIA Standards, the effectiveness of the internal audit activity's structure, the quality of relationships with stakeholders, and the proficiency and continuous professional development of internal audit staff.

? Continuous Improvement: The quality assurance and improvement program (QAIP) should be designed to enable the internal audit activity to add value and improve an organization's operations. It helps ensure that the internal audit activity is in compliance with the IIA Standards and Code of Ethics and continuously improves.

References:

? IIA Standard 1300 – Quality Assurance and Improvement Program .

**NEW QUESTION 132**

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 133**

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

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

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

**Answer:** C

**Explanation:**

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

across the organization.

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

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

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

Other Options:

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

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

#### NEW QUESTION 135

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

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

**Answer: D**

#### Explanation:

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

References:

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

#### NEW QUESTION 137

According to IIA guidance, which of the following statements is true regarding due professional care?

- A. Internal auditors must exercise due professional care to ensure that all significant risks will be identified.
- B. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.
- C. Due professional care requires the internal auditor to conduct extensive examinations and verifications to ensure fraud does not exist.
- D. Due professional care is displayed during a consulting engagement when the internal auditor focuses on potential benefits of the engagement rather than the cost

**Answer: B**

#### Explanation:

Due professional care is a critical concept in internal auditing, ensuring that auditors conduct their work with the necessary diligence and competence.

? Definition and Standards: According to the IIA's International Standards for the

Professional Practice of Internal Auditing (Standards), specifically Standard 1220 – Due Professional Care, internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

Reference: Standard 1220 emphasizes that internal auditors must consider the extent of work needed to achieve the engagement's objectives and the cost of assurance in relation to potential benefits.

Expectation of Competence: The standard requires auditors to use their professional judgment and to exercise the level of skill and care that a reasonably prudent internal auditor would use in similar circumstances.

Practical Example: This includes evaluating the nature and complexity of the engagement, the adequacy and effectiveness of risk management, and control processes relevant to the engagement.

Comprehensive, Not Excessive: While due professional care involves being thorough, it does not mandate exhaustive procedures such as those implied in options A and C.

Clarification: Option A overstates the requirement by implying that all significant risks must be identified, which is not always feasible.

Clarification: Option C misinterprets due professional care by suggesting that extensive examinations and verifications to ensure fraud does not exist are always necessary, which is beyond the typical scope of many audits.

Cost vs. Benefit in Consulting: Option D refers to consulting engagements and the consideration of benefits over cost, which is a part of due professional care but does not capture the comprehensive expectation of care and skill.

Clarification: Due professional care in consulting engagements is about balancing benefits and costs but also involves ensuring quality and thoroughness appropriate to the engagement's objectives.

Conclusion: The correct answer is B, as it accurately reflects the IIA's guidance that internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

#### NEW QUESTION 142

Which of the following statements is true regarding the management-by-objectives method?

- A. Management by objectives is most helpful in organizations that have rapid changes
- B. Management by objectives is most helpful in mechanistic organizations with rigidly defined tasks.
- C. Management by objectives helps organizations to keep employees motivated.
- D. Management by objectives helps organizations to distinguish clearly strategic goals from operational goals

**Answer: C**

#### Explanation:

Definition of Management by Objectives (MBO): Management by Objectives is a performance management approach where managers and employees work together to identify, plan, organize, and communicate objectives. This method involves setting clear, measurable goals with defined timelines.

Key Benefits:

? Employee Motivation: MBO aligns individual goals with organizational objectives, fostering a sense of ownership and engagement among employees. By



participating in goal-setting, employees are more motivated to achieve these objectives, as they see a direct link between their efforts and organizational success.

? Performance Measurement: Clear objectives allow for effective performance measurement and provide a basis for performance appraisals and feedback.

Comparison with Other Options:

? Rapid Changes: Option A is incorrect because MBO is not necessarily best suited for environments with rapid changes, as it relies on predefined objectives that may quickly become outdated.

? Mechanistic Organizations: Option B is incorrect because MBO is more effective in flexible, dynamic organizations rather than rigid, mechanistic ones.

? Strategic vs. Operational Goals: Option D is incorrect because MBO does not inherently distinguish between strategic and operational goals; it focuses on achieving specific measurable objectives.

References:

? MBO helps in increasing employee motivation by involving them in the goal-setting process and aligning their objectives with the organization's goals, which enhances engagement and performance.

#### NEW QUESTION 144

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 147

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 148

An internal auditor believes that the internal audit activity's independence is impaired Which of the following actions should the internal auditor take first?

- A. Report the impairment to senior management
- B. Discuss the impairment with the audit manager.
- C. Ascertain the best approach to disclose the impairment.
- D. Decide on the extent of impact of the impairment

**Answer:** B

#### Explanation:

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

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

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

? Risk Management: The board also develops strategies to mitigate risks, ensuring that the organization can achieve its objectives effectively.

Thus, the most comprehensive governance-related process managed by the board involves strategic planning

#### NEW QUESTION 149

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

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

**Answer:** C

#### Explanation:

Once an internal auditor has identified a business process, the next step is to understand the specific activities involved in that process. This includes mapping out each step or action taken within the process to gain a detailed understanding of how it operates. Identifying process activities helps in evaluating the efficiency, effectiveness, and potential risks associated with the process

#### NEW QUESTION 150

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 154

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 155

If the skills and competencies are not present within the internal audit activity to complete an ad-hoc assurance engagement, which of the following is an acceptable resolution?

- A. Politely decline the engagement due to a lack of qualified staff available at the time.
- B. Complete the engagement as requested, with the best of the current staff's abilities.
- C. Consider using employees from other departments in the organization on the audit team.
- D. Change the scope of the testing to ensure that only available staff proficiencies are used

**Answer:** C

#### Explanation:

? Introduction:

? Resolving Skill Gaps:

? Options Analysis:

? Conclusion:

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#### NEW QUESTION 156

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