

IIA

Exam Questions IIA-CHAL-QISA

Qualified Info Systems Auditor CIA Challenge Exam



NEW QUESTION 1

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 2

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 3

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

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

Answer: C

Explanation:

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

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

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

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

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

References:

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

NEW QUESTION 4

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 5

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 6

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 7

A corporate merger decision prompts the chief audit executive (CAE) to propose interim changes to the existing annual audit plan to account for emerging risks Which of the following is the most appropriate action for the CAE to take regarding the changes made to the audit plan?

- A. Present the revised audit plan directly to the board for approval
- B. Communicate with the chief financial officer and present the revised audit plan to the CEO for approval.
- C. Present the revised audit plan directly to the CEO for approval.
- D. Communicate with the CEO and present the revised audit plan to the board for approval

Answer: D

Explanation:

Role of the CAE: The Chief Audit Executive (CAE) is responsible for developing a risk-based audit plan and ensuring it is aligned with the organization's goals and emerging risks. Significant changes to the audit plan must be communicated appropriately within the organization.

IIA Standards:

? Standard 2020 – Communication and Approval: The CAE must communicate the internal audit plan and resource requirements, including significant interim changes, to senior management and the board for review and approval.

? Risk Assessment: Any changes to the audit plan due to emerging risks, such as a corporate merger, must be documented and approved at the highest levels to ensure comprehensive risk coverage.

Most Appropriate Action:

? Communication with the CEO: The CAE should first discuss the revised audit plan with the CEO to ensure alignment with executive management's perspective on emerging risks.

? Board Approval: After discussing with the CEO, the CAE should present the revised audit plan to the board for formal approval, ensuring transparency and governance.

References:

? Presenting the revised audit plan to the board after discussing with the CEO ensures that all relevant stakeholders are informed and that the revised plan is formally approved, maintaining alignment with IIA standards.

NEW QUESTION 8

A manager has allowed a subordinate employee to have greater control and responsibility over the tasks that he performs This is an example of which of the following?

- A. Job enlargement

- B. Job enrichment
- C. Horizontal loading of the job.
- D. Job rotation.

Answer: B

Explanation:

Job enrichment involves giving an employee more responsibility and control over their work, which increases the employee's sense of ownership and involvement in the task. This concept is about enhancing the role by adding more meaningful tasks and duties to it, rather than simply increasing the quantity of tasks (which would be job enlargement).

: This concept can be found in management and organizational behavior theories, such as Herzberg's Two-Factor Theory, which discusses how job enrichment can lead to higher job satisfaction.

NEW QUESTION 9

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 10

Which of the following is most likely to impair the organizational independence of the internal audit activity?

- A. The chief audit executive (CAE) reports administratively to the chief financial officer
- B. The CAE oversees the effectiveness of the organization's risk management function.
- C. The CAE reports functionally to the CEO.
- D. The CAE managed the finance department for the past five years.

Answer: D

Explanation:

? Impairment of Independence: The organizational independence of the internal audit activity can be impaired if the CAE has had significant roles in management, such as managing the finance department. This prior involvement may create a conflict of interest or perceived bias.

? IIA Standards on Independence: The IIA emphasizes the importance of independence and objectivity in internal auditing. Any prior management role, especially in the department being audited, can compromise the CAE's objectivity.

? Examples of Impairment:

: IIA Standard 1100 - Independence and Objectivity.

NEW QUESTION 10

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:

: COSO Internal Control Framework.

NEW QUESTION 14

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 16

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 21

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 25

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 26

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

- A. A condition-based action plan

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

Answer: D

Explanation:

? Introduction:

? Types of Action Plans:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides .

NEW QUESTION 27

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 31

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 36

The internal audit activity is responsible for which of the following actions related to an organization's internal controls?

- A. Mitigating risks affecting achievement of organizational objectives.
- B. Enabling opportunities affecting achievement of organizational objectives.
- C. Analyzing and advising regarding costs versus benefits of control activities.
- D. Attesting to fairness of financial statements

Answer: C

Explanation:

Internal audit activities include evaluating the effectiveness and efficiency of internal controls, and part of this process involves analyzing and advising on the cost-benefit relationship of control activities.

This function helps ensure that the internal controls in place are not only effective in mitigating risks but are also economically justified

NEW QUESTION 37

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 39

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 41

According to IIA guidance, which of the following describes the primary reason to implement environmental and social safeguards within an organization?

- A. To enable Triple Bottom Line reporting capability.
- B. To facilitate the conduct of risk assessment
- C. To achieve and maintain sustainable development.
- D. To fulfill regulatory and compliance requirements.

Answer: C

Explanation:

Implementing environmental and social safeguards aligns with the broader organizational goal of achieving sustainable development.

These safeguards ensure that the organization operates in a manner that is environmentally responsible and socially conscious, which is crucial for long-term sustainability

NEW QUESTION 43

Which of the following offers the best evidence that the internal audit activity has achieved organizational independence?

- A. An independent third party has assessed the organization's system of internal controls to be adequate and effective.
- B. The chief audit executive reports both functionally and administratively to the CEO
- C. The internal audit charter is drafted properly and approved by the appropriate parties.
- D. The mission statement and strategy of the internal audit activity demonstrates alignment to organizational objectives

Answer: C

Explanation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. It is crucial for establishing the internal audit function's independence and objectivity. When the internal audit charter is properly drafted and approved by the appropriate parties, it provides a clear mandate for the internal audit activity and sets the foundation for its operations. This ensures that the internal audit activity can function independently without undue influence from management.

: According to the IIA's International Standards for the Professional Practice of Internal

Auditing (Standards), specifically Standard 1000 (Purpose, Authority, and Responsibility), the internal audit charter is essential in defining the internal audit activity's role and ensuring its independence.

NEW QUESTION 46

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

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

Answer: D

Explanation:

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

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

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

NEW QUESTION 51

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 53

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 57

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 58

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 59

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

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

Answer: C

Explanation:

? Introduction:

? Nature of CSR Reporting:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 62

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/lty'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 64

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

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

Answer: B

Explanation:

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

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

Importance of the Charter: This ensures the independence and objectivity of the internal audit activity, providing a clear mandate for auditors to obtain information

from external parties as needed.

NEW QUESTION 68

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

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

Answer: C

Explanation:

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

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

NEW QUESTION 72

An organization uses the management-by-objectives method, whereby employee performance is based on defined goals. Which of the following statements is true regarding this approach?

- A. It is particularly helpful to management when the organization is facing rapid change.
- B. It is a more successful approach when adopted by mechanistic organizations.
- C. It is more successful when goal-setting is performed not only by management, but by all team members, including lower-level staff.
- D. It is particularly successful in environments that are prone to having poor employer-employee relations.

Answer: C

Explanation:

? Management-by-Objectives (MBO): This method involves setting clear, measurable objectives that employees and management agree on. It aligns individual performance with organizational goals.

? Inclusive Goal-Setting: When goal-setting is inclusive, involving all team members, it fosters a sense of ownership and commitment to the goals. This collaboration enhances motivation and accountability.

? Empirical Evidence: Research and practical experience indicate that MBO is more effective when employees at all levels are involved in the goal-setting process, as it leads to better performance and job satisfaction.

? IIA Standards and Best Practices: Encouraging participation from all levels aligns with the principles of good governance and effective management, which are central to the IIA's standards and best practices.

References:

? Principles of Management-by-Objectives (MBO) .

NEW QUESTION 76

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 79

What would be the effect if an organization paid one of its liabilities twice during the year, in error?

- A. Assets, liabilities, and owners' equity would be understated.
- B. Assets, net income, and owners' equity would be unaffected.
- C. Assets and liabilities would be understated.
- D. Assets, net income, and owners' equity would be understated, but liabilities would be overstated.

Answer: D

Explanation:

If an organization pays one of its liabilities twice, its assets (cash) would be reduced more than necessary. This results in an understatement of net income and owners' equity because the additional payment is an expense that should not have been recorded. Liabilities would be overstated because the duplicate payment does not reduce the liability correctly.

References:

? "Financial Accounting Principles," which discusses the impact of errors on financial statements.

NEW QUESTION 84

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 86

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 91

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 92

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 95

Evidence discovered during the course of an engagement suggests that multiple incidents of fraud have occurred. There do not appear to be sufficient controls in place to prevent reoccurrence. Which of the following is the internal auditor's most appropriate next step?

- A. Immediately notify management of the area under review and the other internal auditors involved in the engagement
- B. Discuss the situation with the engagement supervisor to determine whether fraud investigation experts are required to investigate the matter properly.
- C. Fully document in the workpapers the evidence that has been discovered and recommend appropriate controls to address the fraud
- D. Provide the evidence that was discovered to local law enforcement for possible prosecution of the suspected fraud

Answer: B

Explanation:

IIA Standards on Fraud:

? Standard 2120 – Risk Management: Internal auditors must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

? Immediate Response: When evidence of fraud is discovered, the internal auditor must ensure that appropriate actions are taken promptly.

Next Steps for Internal Auditor:

? Consult with Supervisor: The internal auditor should discuss the findings with the engagement supervisor. This ensures that the situation is assessed by a more experienced individual who can determine the next steps, including the need for specialized fraud investigation resources.

? Specialized Expertise: Determining whether fraud investigation experts are needed is crucial for handling the matter appropriately, as they possess the necessary skills to investigate complex fraud cases.

Documenting Evidence:

? While documenting the evidence and recommending controls is important (Option C), the immediate step should involve consultation with the supervisor to decide on the investigation approach.

? Notifying management directly (Option A) or law enforcement (Option D) should follow internal protocols and often occur after consultation with the supervisor and possibly higher-level approvals.

References:

? Engaging the engagement supervisor ensures that the appropriate steps are taken to investigate the fraud properly, aligning with professional standards and ensuring a thorough investigation.

NEW QUESTION 100

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

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

Answer: B

Explanation:

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

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

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

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

References:

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

NEW QUESTION 102

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 105

Which of the following would most likely form part of the engagement scope?

- A. Potential legislation on privacy topics will be employed as a compliance target
- O Wire transfers that exceeded \$10,000 in the last 12 months will be analyzed.
- B. Both random and judgmental samplings will be used during the engagement
- C. The probability of significant errors will be considered via risk assessment.

Answer: B

Explanation:

? Introduction:

? Scope Definition:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 106

According to IIA guidance, which of the following statements is true regarding engagement planning?

- A. For both assurance and consulting engagements, planning typically occurs after the engagement objectives and scope have already been determined.
- B. The expectations and objectives of an assurance engagement are usually determined b
- C. or in conjunction with, the engagement client
- D. Internal auditors may not need to complete a preliminary risk assessment for a consulting engagement as they would when planning an assurance engagement.
- E. For both consulting and assurance engagements, internal auditors usually form the engagement objectives prior to completing the preliminary risk assessment

Answer: B

Explanation:

The expectations and objectives of an assurance engagement are often determined in conjunction with the engagement client, aligning with the client's needs and the scope of the engagement. In consulting engagements, internal auditors provide advice and services

tailored to the client's requests, which may not always follow a preliminary risk assessment process like in assurance engagements.

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

(Standards) provide detailed guidance on this aspect of engagement planning, particularly in Standards 2200 and 2201.

NEW QUESTION 110

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 114

According to IIA guidance, which of the following is true regarding typical fraud schemes?

- * 1. A diversion occurs when an employee has an undisclosed personal economic interest in a transaction that adversely affects the organization
- * 2. Tax evasion is intentional reporting of false or misleading information on a tax return by an organization to reduce taxes owed.
- * 3. Skimming involves stealing cash or assets from the organization and is normally concealed by adjusting the organization??s records
- * 4. Disbursement fraud occurs when a person causes the organization to issue a payment for fictitious goods or services

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

Answer: D

Explanation:

? Diversion typically involves redirecting resources or assets for personal use, not just having an undisclosed interest.

? Tax evasion involves deliberate falsification of financial information to avoid tax liabilities.

? Skimming is taking cash before it is recorded in the accounting system, usually difficult to detect.

? Disbursement fraud involves creating fictitious invoices or vendors to divert funds.

: These definitions are aligned with common fraud schemes outlined in the ACFE (Association of Certified Fraud Examiners) Fraud Tree and various IIA practice guides.

NEW QUESTION 119

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

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

Answer: C

Explanation:

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

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

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

NEW QUESTION 121

Which of the following is the most important determinant of the objectives and scope of assurance engagements?

The organizational chart, business objectives, and policies and procedures of the area to be reviewed

- A. The most recent risk assessment conducted by management of the area to be reviewed.
- B. The requests of operational and senior management throughout the organization.
- C. The preliminary risk assessment performed by internal auditors planning the engagement.

Answer: C

Explanation:

The primary determinant of the objectives and scope of assurance engagements is the preliminary risk assessment performed by internal auditors. This assessment identifies the key risks associated with the area under review and helps prioritize the audit efforts based on the significance and likelihood of these risks. This approach ensures that the engagement focuses on the most critical areas, thereby adding value to the organization.

: The International Standards for the Professional Practice of Internal Auditing (Standards)

emphasize the importance of risk-based planning in determining the scope and objectives of audit engagements. Standard 2200 (Engagement Planning) and Standard 2210 (Engagement Objectives) provide guidance on this process.

NEW QUESTION 125

Which of the following internal audit activities is performed in the design evaluation phase?

- A. The internal auditor reviews prior audits and workpapers
- B. The internal auditor identifies the controls over segregation of duties.
- C. The internal auditor checks a process for completeness.
- D. The internal auditor communicates the audit results to management

Answer: B

Explanation:

To determine which internal audit activity is performed in the design evaluation phase, it's essential to understand what each phase in the audit process entails. The design evaluation phase involves assessing whether the design of controls is adequate to mitigate risks to acceptable levels.

? Option A: The internal auditor reviews prior audits and workpapers.

? Option B: The internal auditor identifies the controls over segregation of duties.

? Option C: The internal auditor checks a process for completeness.

? Option D: The internal auditor communicates the audit results to management.

Reference:

According to the Institute of Internal Auditors (IIA) Standards and the guidelines in the IPPF (International Professional Practices Framework), during the design evaluation phase, internal auditors assess the adequacy of control designs. This includes evaluating whether controls like segregation of duties are properly designed to mitigate identified risks. Identifying controls over segregation of duties is a fundamental aspect of assessing the adequacy of the control environment and its design to ensure it can effectively prevent and detect errors and fraud.

NEW QUESTION 128

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 133

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

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

Answer: C

Explanation:

? Introduction:

? Importance of Reporting:

? Options Analysis:

? Conclusion:

:

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

NEW QUESTION 135

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

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

Answer: C

Explanation:

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

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

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

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

References:

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

NEW QUESTION 137

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 138

Which of the following is the most appropriate way to ensure that a newly formed internal audit activity remains free from undue influence by management?

- A. Appoint the chief audit executive as a member of the board.
- B. Adopt written policies and procedures for the internal audit activity, approved by the board.
- C. Ensure the chief audit executive reports administratively to the audit committee.
- D. Establish the internal audit activity's position within the organization in an audit charter

Answer: D

Explanation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. Establishing the internal audit activity's position within the organization in an audit charter ensures independence and objectivity by clearly stating the internal audit's role and its reporting lines. The charter should be approved by the board and senior management to reinforce its authority and protect the internal audit activity from undue influence by management

NEW QUESTION 139

An organization has a mature control environment but limited internal audit resources. Given this scenario, on which of the following should the internal auditors focus their testing?

- A. Detective compensating controls
- B. Preventive compensating controls.
- C. Detective key controls.
- D. Preventive key controls

Answer: D

Explanation:

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

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

NEW QUESTION 141

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 142

Which of the following statements is true regarding an organization's inventory valuation?

- A. The valuation will be incorrect if the inventory includes goods in transit shipped free on board (FOB) destination to another organization.
- B. The valuation will be correct if the inventory includes goods received on consignment from another organization.
- C. The valuation will be incorrect if the inventory includes goods in transit shipped FOB shipping point from another organization.
- D. The valuation will be correct if the inventory includes goods sent on consignment to another organization

Answer: C

Explanation:

Inventory Valuation Principles: Inventory valuation must accurately reflect the ownership of goods. The accounting treatment of inventory in transit depends on the shipping terms, specifically whether it is FOB (Free on Board) shipping point or FOB destination.

FOB Shipping Point:

? Ownership Transfer: When goods are shipped FOB shipping point, ownership transfers to the buyer as soon as the goods leave the seller's premises.

? Impact on Inventory Valuation: If goods shipped FOB shipping point are in transit at the end of the reporting period, they should be included in the buyer's inventory, not the seller's.

FOB Destination:

? Ownership Transfer: When goods are shipped FOB destination, ownership transfers to the buyer only when the goods arrive at the buyer's premises.

? Impact on Inventory Valuation: Goods in transit under FOB destination terms should remain in the seller's inventory until they reach the buyer.

Consignment:

? Goods Received on Consignment: Goods held on consignment should not be included in the inventory of the consignee (the holder) but remain in the inventory of the consignor (the owner).

? Goods Sent on Consignment: Goods sent out on consignment should still be included in the inventory of the consignor until they are sold by the consignee.

Correct and Incorrect Valuations:

? Incorrect Valuation (Option C): Including goods in transit shipped FOB shipping point in the seller's inventory would be incorrect, as ownership has transferred to the buyer.

? Correct Valuation (Option D): Including goods sent on consignment in the consignor's inventory is correct because ownership has not transferred.

References:

? Correct inventory valuation practices ensure that goods in transit are properly accounted for based on the shipping terms, thus providing an accurate financial

picture of inventory.

NEW QUESTION 145

A bakery chain has a statistical model that can be used to predict daily sales at individual stores based on a direct relationship to the cost of ingredients used and an inverse relationship to rainy days. What conditions would an auditor look for as an Indicator of employee theft of food from a specific store?

- A. On a rainy day, total sales are greater than expected when compared to the cost of ingredients used.
- B. On a sunny day, total sales are greater than expected when compared to the cost of ingredients used.
- C. On a rainy day, total sales are less than expected when compared to the cost of ingredients used.
- D. On a sunny day, total sales are less than expected when compared to the cost of ingredients used.
- E. Both total sales and cost of ingredients used are greater than expected.
- F. Both total sales and cost of ingredients used are less than expected.

Answer: A

Explanation:

The statistical model indicates that daily sales have a direct relationship with the cost of ingredients used and an inverse relationship with rainy days.

? Option A: On a rainy day, if total sales are greater than expected compared to the cost of ingredients used, it may indicate discrepancies that could be a sign of employee theft. For instance, if ingredients are used but not reflected in the sales, it suggests that items might be missing (stolen).

? Option B: On a sunny day, lower-than-expected sales compared to the cost of ingredients could indicate wastage but not necessarily theft.

? Option C and D: Both scenarios where total sales and the cost of ingredients are higher or lower than expected do not specifically point to theft without additional context.

NEW QUESTION 148

.....

Thank You for Trying Our Product

We offer two products:

1st - We have Practice Tests Software with Actual Exam Questions

2nd - Questions and Answers in PDF Format

IIA-CHAL-QISA Practice Exam Features:

- * IIA-CHAL-QISA Questions and Answers Updated Frequently
- * IIA-CHAL-QISA Practice Questions Verified by Expert Senior Certified Staff
- * IIA-CHAL-QISA Most Realistic Questions that Guarantee you a Pass on Your First Try
- * IIA-CHAL-QISA Practice Test Questions in Multiple Choice Formats and Updates for 1 Year

100% Actual & Verified — Instant Download, Please Click
[Order The IIA-CHAL-QISA Practice Test Here](#)