



**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 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 3

With regard to project management, which of the following statements about project crashing is true?

- A. It leads to an increase in risk and often results in rework.
- B. It is an optimization technique where activities are performed in parallel rather than sequentially
- C. It involves a revaluation of project requirements and/or scope.
- D. It is a compression technique in which resources are added to the project

**Answer:** D

#### Explanation:

Project crashing is a schedule compression technique used in project management to shorten the project duration without changing the project scope. It involves adding additional resources to critical path activities to complete them faster. This method can lead to increased costs but aims to reduce the project timeline effectively. Crashing is often used when project deadlines are tight and time is more critical than budget.

: Project Management Institute (PMI) defines project crashing as a technique used to shorten the schedule duration for the least incremental cost by adding resources. This is detailed in the PMBOK Guide (Project Management Body of Knowledge).

#### NEW QUESTION 4

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 5

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 6

An accounts payable clerk has recently transferred into the internal audit activity and has been assigned to an engagement related to accounts payable processes for which he was previously responsible Which of the following is the best action for the new internal auditor to take?

- A. If it is an assurance engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value
- B. If it is a consulting engagement, decline the assignment and ask to be reassigned, because in a consulting engagement the auditor must not assess operations for areas in which they were previously responsible.
- C. if it is a consulting engagement, accept the assignment because direct knowledge of the existing accounts payable processes will provide depth and add more value
- D. If it is an assurance engagement, accept the assignment because the chief audit executive hadknowledge of the internal auditor's previous role when this engagement was assigned.

**Answer:** B

#### Explanation:

? Conflict of Interest: For both assurance and consulting engagements, it is crucial to avoid conflicts of interest. An auditor assessing processes they were previously responsible for can compromise objectivity and independence.

? IIA Standards: The IIA's Code of Ethics and standards emphasize maintaining objectivity and avoiding conflicts of interest. This is particularly important in consulting engagements where the auditor's recommendations could be influenced by prior roles.

? Appropriate Action:

: IIA Standard 1130 - Impairment to Independence or Objectivity.

#### NEW QUESTION 7

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 8

Which of the following is a true statement regarding whistleblowing?

- A. Whistleblowing is one of several possible ethical structures an organization can undertake to encourage ethical behavior.
- B. Whistleblowing programs help employees deal with ethical questions and instill ethicalvalues into everyday behavior
- C. Whistleblowers are current or former employees who are disgruntled and looking to retaliate.
- D. Whistleblowers should inform the organization about actual criminal circumstances, not assumed allegations.

**Answer:** A

**Explanation:**

? Purpose of Whistleblowing: Whistleblowing is a mechanism that allows employees to report unethical or illegal activities within the organization. It is a vital part of an organization's ethical framework, providing a structured way for concerns to be raised and addressed.

Reference: IIA's Practice Guide on Whistleblowing Programs.

Encouraging Ethical Behavior: By having a whistleblowing program, an organization encourages employees to come forward with concerns, which helps in maintaining ethical standards and preventing misconduct.

Practical Example: Employees who notice financial discrepancies can report these through the whistleblowing system without fear of retaliation, supporting a culture of transparency and accountability.

Other Options Considered:

Option B: While whistleblowing programs can support ethical behavior, they are primarily designed for reporting issues rather than instilling values.

Option C: This is a misconception; whistleblowers often report genuine concerns rather than acting out of retaliation.

Option D: Whistleblowers can report suspected unethical or illegal activities, which may not always be criminal but are still significant for organizational integrity.

Conclusion: The correct answer is A, as whistleblowing is one of several ethical structures that organizations can adopt to encourage reporting of unethical behavior and maintain high ethical standards.

**NEW QUESTION 9**

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

- A. Creating a comprehensive reporting system for vendors to demonstrate their ongoing due diligence in network operations.
- B. Drafting a strong contract that requires regular vendor control reports and a right-to-audit clause
- C. Applying administrative privileges to ensure right-to-access controls are appropriate
- D. Creating a standing cybersecurity committee to identify and manage risks related to data security.

**Answer:** B

**Explanation:**

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

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

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

Contract Management:

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

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

References:

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

**NEW QUESTION 10**

Which of the following should be included in a company's year-end inventory valuation?

- A. Company goods that were sold during the year, free on board shipping point, that have been shipped but not yet received by the customer
- B. Goods purchased by the company, free on board destination, that have not yet been received.
- C. Goods on consignment, which the company is trying to sell for its customers.
- D. Company goods for sale on consignment at a consignment shop

**Answer:** D

**Explanation:**

Year-end inventory valuation should include all goods owned by the company, regardless of their location. This includes goods for sale on consignment at a consignment shop, as these items remain the property of the company until sold. Goods sold FOB shipping point and goods purchased FOB destination that have not yet been received are not included, as ownership has transferred or not yet been acquired respectively. Goods on consignment that the company is trying to sell for others are also excluded because the company does not own them.

**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 13

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 15

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

A. increased access to the organization's employees.

B. Increased ability to preserve evidence and the chain of command.

C. Increased ability to scrutinize the organization's key business processes.

D. increased access to the organization's software and proprietary data.

**Answer: B**

#### Explanation:

? Introduction:

? Advantages of External Fraud Specialists:

? Options Analysis:

? Conclusion:

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### NEW QUESTION 20

According to IIA guidance, which of the following statements about analytical procedures is true?

A. Analytical procedures compare information against expectations

B. Analytical procedures begin after the engagements planning phase.

C. Analytical procedures provide internal auditors with explainable results.

D. Analytical procedures are computer-assisted audit techniques

**Answer: A**

#### Explanation:

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

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

IIA Guidance on Analytical Procedures:

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

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

Other Statements:

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

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

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

### NEW QUESTION 22

Which of the following activities would an internal auditor perform as a consulting engagement for an organization?

A. Advising new internal auditors working for the organization on how to develop strategies on planning audits for the upcoming fiscal year

B. Assessing whether the organization's corporate social responsibility program is meeting its yearly goals to reduce carbon emissions.

C. Briefing the organization's department managers on how to implement risk management processes into their daily operations.

D. Communicating with senior management to better understand how new purchasing controls will minimize payment processing time

**Answer: C**

**Explanation:**

? Consulting Engagements: Consulting engagements are advisory in nature and are intended to add value and improve an organization's governance, risk management, and control processes.

? Role of Internal Auditor: In a consulting role, an internal auditor provides advice, facilitates risk management, and helps enhance the efficiency and effectiveness of operations.

? Briefing Managers: By briefing department managers on how to implement risk management processes into their daily operations, the internal auditor is providing valuable advice that can help improve the organization's risk management framework.

? IIA Standards: The IIA's standards emphasize that consulting activities should aim at improving governance, risk management, and control processes without taking on management responsibilities.

References:

? IIA Standard 2010 – Planning .

**NEW QUESTION 25**

Which of the following situations is most likely to heighten an internal auditor's professional skepticism regarding potential fraud?

- A. A procurement manager does not have the expected academic credentials for his position
- B. A salesperson frequently complains about the organization's policy on sales commissions.
- C. The accounts payable supervisor has requested advances against her monthly salary on several occasions
- D. A financial accountant is absent from work frequently due to regular medical procedures

**Answer:** A

**Explanation:**

Professional skepticism is an essential attitude for internal auditors, particularly when assessing the risk of fraud. According to the IIA's Practice Guide "Internal Auditing and Fraud", one of the red flags that may heighten an internal auditor's professional skepticism is the presence of employees whose qualifications or credentials do not match the requirements of their positions. In this case, a procurement manager lacking the expected academic credentials raises concerns because it could indicate potential fraudulent activities such as unqualified decision-making or manipulation of procurement processes.

Reference: IIA Practice Guide "Internal Auditing and Fraud"

**NEW QUESTION 27**

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 30**

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

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

**Answer:** B

**Explanation:**

? Introduction:

? Understanding Incorrect Acceptance Risk:

? Options Analysis:

? Conclusion:

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**NEW QUESTION 31**

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 34**

According to IIA guidance, which of the following activities are typically primary objectives of engagement supervision?

- A. Enable training and development of staff, identify engagement objectives, and assign responsibilities to individual auditors.
- B. Identify engagement objectives, assign responsibilities to individual auditors, and approve the engagement program.
- C. Assign responsibilities to individual auditors, approve the engagement program, and enable training and development of staff.
- D. Approve the engagement program, enable training and development of staff, and identify engagement objectives

**Answer:** C

**Explanation:**

Engagement Supervision Objectives:

? Assign Responsibilities: Supervisors must clearly assign tasks and responsibilities to individual auditors to ensure clarity and accountability during the engagement.

? Approve Engagement Program: The supervisor is responsible for reviewing and approving the engagement program, ensuring that it aligns with the engagement objectives and internal audit standards.

? Training and Development: Supervision also involves mentoring and developing audit staff, providing guidance and feedback to enhance their skills and performance.

IIA Standards:

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

Primary Objectives:

? Clarity and Accountability: Assigning responsibilities ensures that each auditor knows their role and tasks.

? Quality and Compliance: Approving the engagement program ensures that the audit plan is robust and compliant with standards.

? Professional Development: Enabling training and development helps build a competent and skilled audit team.

References:

? Effective engagement supervision involves assigning responsibilities, approving the engagement program, and facilitating training and development, ensuring a successful audit engagement and continuous staff improvement.

**NEW QUESTION 38**

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 41**

The internal audit activity is planning an assurance engagement for a foreign subsidiary. According to IIA guidance, which of the following would be included in the preliminary communication to management of the area under review?

- A. The scope of the engagement, the estimated time frame, and the names of the auditors.
- B. The estimated time frame, the names of the auditors, and the resources and travel budget
- C. The names of the auditors, the resources and travel budget, and the scope of the engagement.

D. The resources and travel budget, the scope of the engagement, and the estimated time frame.

**Answer:** A

**Explanation:**

? Preliminary Communication: Preliminary communication to management of the area under review is essential in setting clear expectations and ensuring transparency regarding the upcoming audit.

? Key Elements to Include:

? IIA Guidance: According to the IIA standards, communicating these elements helps in building a cooperative relationship and ensures that there are no misunderstandings regarding the audit process.

References:

? IIA Standard 2201 – Planning Considerations .

**NEW QUESTION 43**

Which of the following resources would be most effective for an organization that would like to improve how it informs stakeholders of its social responsibility performance?

A. ISO 26000

B. Global Reporting Initiative.

C. Open Compliance and Ethics Group.

D. COSO's enterprise risk management framework.

**Answer:** B

**Explanation:**

? Understanding the GRI: The Global Reporting Initiative (GRI) provides a comprehensive framework for reporting on sustainability performance, including social responsibility aspects.

? Framework and Standards: GRI standards are widely used and recognized globally, which helps organizations benchmark their performance against other entities using the same framework.

? Stakeholder Communication: The GRI framework emphasizes transparency and accountability in reporting, making it an effective tool for informing stakeholders about an organization's social responsibility performance.

? Comprehensive Coverage: GRI covers various aspects of social responsibility, including economic, environmental, and social impacts, providing a holistic view of an organization's performance.

References:

? The Global Reporting Initiative (GRI) .

**NEW QUESTION 44**

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:

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**NEW QUESTION 49**

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 52**

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 55**

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 by the engagement client.
- 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 60**

Which of the following is the most appropriate reason for a chief audit executive to conduct an external assessment more frequently than five years?

- A. Significant changes in the organization's accounting policies or procedures would warrant timely analysis and feedback.
- B. More frequent external assessments can serve as an equivalent substitute for internal assessments.
- C. The parent organization's internal audit activity agreed to perform biennial reciprocal external assessments to provide greater assurance at a reduced cost.
- D. A change in senior management or internal audit leadership may change expectations and commitment to conformance

**Answer: D**

**Explanation:**

? Introduction:

? Reasons for More Frequent Assessments:

? Options Analysis:

? Conclusion:

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**NEW QUESTION 65**

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 69

When determining the level of staff and resources to be dedicated to an assurance engagement, which of the following would be the most relevant to the chief audit executive?

- A. The overall adequacy of the internal audit activity's resources
- B. The availability of guest auditors for the engagement
- C. The number of internal auditors used for the previous review of the same area.
- D. The available resources with the specific skill set required

**Answer:** D

#### Explanation:

When determining the level of staff and resources to dedicate to an assurance engagement, the most critical factor for the chief audit executive (CAE) is ensuring that the available resources possess the specific skill sets required for the engagement. This ensures that the internal audit team can effectively address the unique challenges and risks associated with the audit.

? Skill Set Relevance: The CAE must match the skills and knowledge of the audit team to the specific requirements of the audit engagement. This includes technical expertise, industry knowledge, and any specialized skills needed for the audit.

? Resource Allocation: Effective allocation involves not just the number of auditors but ensuring they have the right competencies to perform the audit tasks proficiently.

? Impact on Audit Quality: Allocating resources with the appropriate skill set ensures the audit is thorough and of high quality, reducing the risk of overlooking critical issues.

References:

? "Managing Internal Audit Activities," which discusses the importance of aligning audit resources with the necessary skills for specific engagements .

#### NEW QUESTION 73

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 74

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 77

A company makes a product at a cost of \$26 per unit, of which \$10 is fixed cost. The product is usually sold for \$30 per unit; however, the company has been approached by a new customer who would like to purchase 3,500 units for \$18 each. Further, the company would incur additional cost to deliver the units to this customer. If the company has the excess manufacturing capacity and all other factors are constant, what is the additional cost that the company would incur in order to make a profit of \$1.50 per unit for this order?

- A. \$0.50
- B. \$1.50
- C. \$2.50
- D. \$3.50

**Answer:** C

#### Explanation:

To determine the additional cost that the company would incur to make a profit of \$1.50 per unit for the new order, we need to calculate the relevant costs and desired profit margin:

? Current Cost and Selling Price: The current cost to produce one unit is \$26, with \$10 being fixed costs and \$16 being variable costs. The product is usually sold for \$30.

? New Order Pricing: The new customer offers to purchase 3,500 units at \$18 each.

The company needs to make a profit of \$1.50 per unit on this order.

? Calculation:

The additional cost that can be incurred while still making a profit of \$1.50 per unit is \$2.50

#### NEW QUESTION 78

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:

:

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#### NEW QUESTION 80

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 85

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:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 88  
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