

IIA-CHAL-QISA Dumps

Qualified Info Systems Auditor CIA Challenge Exam

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NEW QUESTION 1

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

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

Answer: A

Explanation:

? Introduction:

? IIA Guidance on Review Notes:

? Options Analysis:

? Conclusion:

:IIA's International Professional Practices Framework (IPPF).

NEW QUESTION 2

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

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

Answer: C

Explanation:

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

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

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

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

References:

? ISO 31000 Risk Management Guidelines.

NEW QUESTION 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

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 5

Which of the following internal audit activity staffing models has the disadvantage that auditors are always new and in training?

- A. Career model
- B. Center of competence model.
- C. Rotational model.
- D. Hybrid model

Answer: C

Explanation:

Understanding Staffing Models: Internal audit activity staffing models vary in structure and approach, each with its advantages and disadvantages. The rotational model involves assigning employees from various departments to the internal audit activity for a fixed period before they rotate back to their original or new roles within the organization. Rotational Model Disadvantages:

? Continuous Training: A key disadvantage of the rotational model is that auditors are often new and in training. This model means that there is a constant influx of new staff who may lack extensive audit experience, requiring continuous training and development efforts.

? Consistency and Expertise: This can impact the consistency and depth of audit expertise within the internal audit activity, as the auditors are frequently changing.

Comparison with Other Models:

? Career Model: Auditors build long-term careers within the internal audit activity, leading to high levels of expertise and consistency.

? Center of Competence Model: This model involves a centralized team of audit professionals who provide specialized audit services across the organization, ensuring high levels of competence.

? Hybrid Model: Combines elements of multiple models to balance the benefits and mitigate the drawbacks of each approach.

References:

? The rotational model's major drawback of auditors always being new and in training highlights the challenges in maintaining a stable and highly skilled audit team. Continuous training efforts are required to ensure the effectiveness of this staffing model.

NEW QUESTION 6

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

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

Answer: D

Explanation:

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

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

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

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

References:

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

NEW QUESTION 7

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

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

Answer: B

Explanation:

? Introduction:

? Limitations of Heat Maps:

? Options Analysis:

? Conclusion:

:Internal Audit Standards and Practice Guides .

NEW QUESTION 8

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 ethical values 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

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 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 12

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 14

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 15

Which of the following statements is true regarding engagement planning?

- A. The scope of the engagement should be planned according to the internal audit activity's budgetand then aligned to the risk universe.
- B. The audit engagement objectives should be based on operational managements view of risk objectives
- C. The planning phase of the engagement should be completed and approved before the fieldwork of the engagement begins.
- D. The main purpose of the engagement work program is to determine the nature and timing of procedures required to gather audit evidence

Answer: C

Explanation:

Proper engagement planning is essential to ensure that the internal audit engagement is conducted effectively and efficiently.

Completing and approving the planning phase before starting the fieldwork ensures that all objectives, scope, resources, and methodologies are well-defined and agreed upon.

This preparation helps in aligning the engagement with the overall audit strategy and reduces the risk of scope changes or misalignments during fieldwork

NEW QUESTION 20

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

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

Answer: D

Explanation:

? Introduction:

? Cost Characteristics:

? Options Analysis:

? Conclusion:

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Cost Accounting Standards and Practices .

NEW QUESTION 21

While auditing an organization's credit approval process, an internal auditor learns that the organization has made a large loan to another auditors relative. Which course of action should the auditor take?

- A. Proceed with the audit engagement, but do not include the relative's information.
- B. Have the chief audit executive and management determine whether the auditor shouldcontinue with the audit engagement.
- C. Disclose in the engagement final communication that the relative Is a customer
- D. Immediately withdraw from the audit engagement

Answer: B

Explanation:

? Identify the Conflict of Interest: The internal auditor learns about a large loan made to another auditor's relative, which represents a conflict of interest.

? Refer to Professional Standards: According to the Institute of Internal Auditors' (IIA) standards, an internal auditor must maintain objectivity and avoid conflicts of interest (IIA Standard 1100 – Independence and Objectivity).

? Escalate the Issue: The appropriate course of action is to escalate this matter to the chief audit executive (CAE) and management, as they are responsible for determining the impact of the conflict and the appropriate response.

? Decision Making: The CAE and management will assess whether the conflict of interest could impair the auditor's objectivity and decide whether the auditor should be removed from the engagement or if additional oversight is needed.

? Documentation: It is important to document the conflict and the decision-making process in the audit documentation for transparency and accountability.

References:

? The IIA's International Standards for the Professional Practice of Internal Auditing, specifically Standard 1100 on Independence and Objectivity.

NEW QUESTION 23

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 26

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 28

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 29

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 31

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

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

Answer: A

Explanation:

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

? Documentation of Audit Steps and Procedures: The primary purpose of a planning memorandum is to detail the steps and procedures that the audit team will follow. This ensures consistency and clarity throughout the audit process and provides a clear framework for team members to follow.

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

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

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

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

Clarification: Options B, C, and D may include elements found within broader audit planning, but the planning memorandum specifically focuses on the procedural roadmap.

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

NEW QUESTION 35

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

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

Answer: C

Explanation:

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

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

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

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

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

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

NEW QUESTION 40

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

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

Answer: B

Explanation:

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

Efficiency and Effectiveness:

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

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

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

NEW QUESTION 42

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

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

Answer: C

Explanation:

? Introduction:

? Responsibilities of Internal Audit:

? Options Analysis:

? Conclusion:

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Internal Audit Standards and Practice Guides .

NEW QUESTION 43

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

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

Answer: C

Explanation:

Directive controls are designed to encourage desired behavior or outcomes.

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

? Option B: Exception reports are detective controls.

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

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

NEW QUESTION 46

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 48

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

- A. The chief audit executive (CAE) reports functionally to the board and administratively to the chief financial officer
- B. The board seeks senior management's recommendation before approving the annual salary adjustment of the CAE.
- C. The CAE confirms to the board, at least once every five years, the organizational independence of the internal audit activity.
- D. The CAE updates the internal audit charter and presents it to the board for approval periodically, not on a specific timeline

Answer: B

Explanation:

? Independence Requirement: The IIA's mandatory guidance emphasizes the importance of the CAE's independence to ensure unbiased internal audit activities.

? Conflict of Interest: Seeking senior management's recommendation for the CAE's salary adjustment can create a conflict of interest and potentially compromise the CAE's independence.

? Best Practices: To maintain independence, the CAE's compensation should be determined by the board without influence from senior management.

? Standard Compliance: According to the IIA's Attribute Standard 1110 – Organizational Independence, the CAE must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

References:

? IIA Standard 1110 – Organizational Independence .

NEW QUESTION 49

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

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

Answer: B

Explanation:

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

References:

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

NEW QUESTION 52

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 53

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 58

An organization invests excess short-term cash in trading securities. Which of the following actions should an internal auditor take to test the valuation of those securities?"

- A. Use the equity method to recalculate the investment carrying value
- B. Confirm the securities held by the broker.
- C. Perform a calculation of premium or discount amortization.
- D. Compare the carrying value with current market quotations

Answer: D

Explanation:

? Testing Valuation: The valuation of trading securities requires comparing their carrying value with current market prices to ensure accuracy.

? Market Quotations: Current market quotations provide the most reliable and up-to-date information on the fair value of securities.

? Accounting Standards: This approach is consistent with accounting standards that require securities to be reported at fair value, reflecting any unrealized gains or losses.

? Verification Process: Comparing the carrying value with market quotations helps verify that the securities are appropriately valued on the financial statements.

References:

? International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Principles (GAAP) regarding fair value measurement.

NEW QUESTION 62

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 63

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 67

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 72

In the years after the mid-service point of a depreciable asset, which of the following depreciation methods will result in the highest depreciation expense?

- A. Sum of the years?? digits.
- B. Declining balance.
- C. Double-declining balance.
- D. Straight line.

Answer: C

Explanation:

Depreciation methods allocate the cost of an asset over its useful life. Different methods impact the depreciation expense reported each year.

? Option A: Sum of the years?? digits.

? Option B: Declining balance.

? Option C: Double-declining balance.

? Option D: Straight line.

Reference:

As per accounting principles and guidelines (e.g., GAAP and IFRS), the double-declining balance method is a form of accelerated depreciation that provides higher depreciation expenses earlier in the life of an asset. This method applies a constant rate of depreciation to the declining book value of the asset each year, which is why it results in the highest depreciation expense after the mid-service point.

NEW QUESTION 77

During which phase of the contracting process are contracts drafted for a proposed business activity??

- A. Initiation phase.
- B. Bidding phase.
- C. Development phase.
- D. Management phase

Answer: C

Explanation:

Contracts are typically drafted during the development phase of the contracting process. This phase follows the initiation and bidding phases and involves detailed negotiations and the preparation of formal agreements that outline the terms and conditions of the proposed business activity. This ensures that both parties have a clear understanding of their obligations and expectations before the contract is finalized and executed

NEW QUESTION 81

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 83

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 87

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

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 97

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

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

Answer: A

Explanation:

? Introduction:

? Effective Verification Methods:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides .

NEW QUESTION 100

Which of the following is true of matrix organizations?

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

Answer: B

Explanation:

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

? Advantages of Matrix Structure:

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

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

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

: Management and Organizational Behavior textbooks.

NEW QUESTION 103

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

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

Answer: D

Explanation:

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

Reference: IIA Standard 1320

NEW QUESTION 107

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

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:

:

Internal Audit Standards and Practice Guides .

NEW QUESTION 116

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

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

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

Answer: C

Explanation:

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

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

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

can act as a control mechanism.

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

Other Options:

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

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

NEW QUESTION 118

Which of the following statements best demonstrates application of due professional care during an assurance engagement?

- A. The engagement detected irregularities and noncompliance instances.
- B. The engagement supervisor had no significant comments in the supervisory review.
- C. The audit procedures were systematically planned: executed, and documented.
- D. The engagement objectives were designed to assist the engagement client

Answer: C

Explanation:

? Introduction:

? Application of Due Professional Care:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 122

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 125

Which of the following steps should an internal auditor complete when conducting a review of an electronic data interchange application provided by a third-party service?

- * 1. Ensure encryption keys meet ISO standards.
- * 2. Determine whether an independent review of the service provider's operation has been conducted.
- * 3. Verify that the service provider's contracts include necessary clauses.
- * 4. Verify that only public-switched data networks are used by the service provider

A. 1 and 3.

B. 1 and 4

C. 2 and 3.

D. 2 and 4.

Answer: C

Explanation:

When conducting a review of an electronic data interchange (EDI) application provided by a third-party service, the internal auditor should ensure several key aspects to maintain security and compliance:

? Independent Review of Service Provider: Determine whether an independent

review of the service provider's operations has been conducted. This review helps ensure that the service provider meets necessary standards and maintains adequate controls.

? Contractual Clauses: Verify that the service provider's contracts include necessary clauses. These clauses should cover aspects like data security, confidentiality, compliance with standards, and performance metrics. Ensuring encryption keys meet ISO standards and verifying the use of public-switched data networks are important but are more specific technical controls that might be part of broader reviews. The focus here should be on independent verification and robust contractual agreements

NEW QUESTION 130

A newly appointed chief audit executive (CAE) started analyzing the organization's policies in an attempt to customize them to address internal audit specifics. Which of the following organizationwide practices is most likely to be acceptable to the CAE?

- A. Internal auditors' performance evaluation is primarily based on both client satisfaction surveys and cost savings identified from the audits
- B. Standard training for each employee, including internal auditors, is 10 hours per year.
- C. To enhance efficiency, Internal auditors should not be rotated regularly among engagements
- D. Hiring practices include requiring potential auditors to disclose any significant stock ownership in the organization.

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 132

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 135

The chief audit executive (CAE) has assigned an internal auditor to an upcoming engagement. Which of the following requirements would most likely indicate that the Internal auditor was assigned to an assurance engagement?

- A. The assigned internal auditor must determine the objectives, scope, and techniques of the engagement.
- B. The CAE must personally obtain the needed skills, knowledge, or other competencies if the internal auditor does not have them.
- C. The assigned internal auditor must not assume management responsibilities while performing the engagement.
- D. The assigned internal auditor must maintain objectivity while performing the engagement

Answer: C

Explanation:

? Introduction:

? Role of Internal Auditors in Assurance Engagements:

? Options Analysis:

? Conclusion:

:

Internal Audit Standards and Practice Guides

NEW QUESTION 138

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 143

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

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

Answer: D

Explanation:

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

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

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

NEW QUESTION 145

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

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

Answer: B

Explanation:

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

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

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

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

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

NEW QUESTION 150

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

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

Answer: D

Explanation:

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

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

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

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

References:

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

NEW QUESTION 155

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