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### NEW QUESTION: 1

According to IIA guidance, which of the following steps should precede the development of audit engagement objectives?

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

**Answer: C (LEAVE A REPLY)**

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

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

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

### NEW QUESTION: 2

During an assurance engagement an internal auditor uses benchmarking research to support preparation of a report to stakeholders that contains significant findings about control deficiencies. Which of the following skills did the auditor demonstrate?

- A. Internal audit management
- B. Conflict negotiation.
- C. Critical thinking
- D. Persuasion and collaboration

**Answer: (SHOW ANSWER)**

\* Benchmarking Research: Utilizing benchmarking research to support the preparation of a report demonstrates the auditor's ability to analyze data, compare performance, and identify control deficiencies.

\* Critical Thinking: This skill involves evaluating and interpreting data to make informed judgments and recommendations, which is essential for identifying significant findings and control deficiencies.

\* Application in Auditing: Critical thinking helps auditors assess the effectiveness of controls and develop recommendations based on evidence and comparative analysis.

References:

\* The role of critical thinking in internal auditing as emphasized by the IIA .

### **NEW QUESTION: 3**

According to IIA guidance, which of the following most appropriately justifies the CEO's decision that the internal audit activity shall be responsible for risk management and Investigation at multinational organization?

**A.** The recommendation of the parent office external auditors.

**B.** The provisions of the internal audit charter.

**C.** The authority of the CEO.

**D.** The level of proficiency of the chief audit executive

**Answer: (SHOW ANSWER)**

**Role of Internal Audit Charter:** The internal audit charter is a formal document that defines the purpose, authority, and responsibility of the internal audit activity. It establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board.

**CEO's Decision Justification:** According to IIA guidance, the internal audit activity can take on responsibilities related to risk management and investigation if it is defined within the internal audit charter.

The charter must outline the scope of the internal audit activity, which can include risk management functions if approved by the board and senior management.

**Authority and Proficiency:** While the CEO has the authority to assign responsibilities, the decision must align with the provisions of the internal audit charter. The level of proficiency of the CAE and the recommendation of external auditors can support the decision but are not primary justifications.

**IIA Standards:** Standard 1000 - Purpose, Authority, and Responsibility - requires that the internal audit activity's purpose, authority, and responsibility be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.

References:

\* The internal audit charter is the primary document that justifies the scope and responsibilities of the internal audit activity, including risk management and investigation

roles. It ensures that such roles are formally acknowledged and authorized by the board and senior management.

#### **NEW QUESTION: 4**

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

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

**Answer:** ([SHOW ANSWER](#))

\* Introduction:

\* The engagement scope outlines the boundaries of the audit activities, specifying the methods and techniques to be employed during the engagement.

\* Scope Definition:

\* The scope includes the areas to be reviewed, the nature and extent of testing, and the specific objectives and criteria to be used.

\* Options Analysis:

\* Option A: Specifying compliance targets is part of planning but too specific for the overall engagement scope.

\* Option B: Detailing the use of both random and judgmental samplings defines the methodology clearly, which is appropriate for the engagement scope.

\* Option C: Considering the probability of significant errors is part of the risk assessment process, not the scope itself.

\* Option D: Analyzing wire transfers is a specific audit test rather than a definition of the engagement scope.

\* Conclusion:

\* Specifying both random and judgmental samplings as part of the engagement scope provides a clear and comprehensive methodology for the audit, making it the most appropriate choice.

#### **NEW QUESTION: 5**

Which of the following offers the best explanation of why the auditor in charge would assign a junior auditor to complete a complex part of the audit engagement?

- A.** The senior auditors are unavailable, as they are currently working on other portions of the engagement
- B.** The auditor in charge believes that the junior auditor should obtain a specific type of experience.
- C.** The audit engagement has a tight deadline and the work must be completed timely.
- D.** The auditor in charge is unable to identify audit staff with all of the required skills needed to complete the engagement

**Answer:** **B** ([LEAVE A REPLY](#))

Assigning a junior auditor to complete a complex part of an audit engagement can be a strategic decision aimed at providing the junior auditor with valuable experience. This exposure to complex tasks helps in their professional development, building their skills and knowledge for future responsibilities. Although tight deadlines or the unavailability of senior auditors might be factors, the primary reason is often to enhance the junior auditor's competence and career growth.

### **NEW QUESTION: 6**

An organization's health-care insurance costs have been rising approximately 10 percent per year for several years. Which of the following analytical review procedures would best evaluate the reasonableness of the increase in health-care costs?

- A.** Develop a comparison of the costs incurred with similar costs incurred by other organizations.
- B.** Obtain the government index of health-care costs for the comparable period of time and compare the rate of increase with that of the cost per employee incurred by the organization.
- C.** Obtain a bid from another health-care administrator to provide the same administrative services as the current health-care administrator.
- D.** Review all claims and compare with appropriate procedures to ensure that overpayments have not occurred.

**Answer: B (LEAVE A REPLY)**

Analytical review procedures involve evaluating financial information by studying plausible relationships among financial and non-financial data.

- \* **Government Index Comparison:** Comparing the organization's increase in health-care costs with a relevant government index provides a benchmark to assess whether the cost increases are in line with broader economic trends.
- \* **Claims Review:** While reviewing all claims could help identify specific overpayments, it is more labor-intensive and less effective for evaluating overall reasonableness.
- \* **Competitive Bids:** Obtaining bids from other health-care administrators might control future costs but does not evaluate the reasonableness of past cost increases.
- \* **Industry Comparison:** Comparing costs with those incurred by similar organizations could be useful but might not provide a standardized measure like a government index.

References:

- \* "Auditing and Assurance Services: An Integrated Approach," which details the use of analytical procedures in evaluating financial data.

### **NEW QUESTION: 7**

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 (LEAVE A REPLY)**

**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: 8**

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

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

**Answer: D (LEAVE A REPLY)**

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

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

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

### **NEW QUESTION: 9**

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

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

**Answer: C (LEAVE A REPLY)**

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

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

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

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

References:

\* Principles of Management-by-Objectives (MBO) .

### **NEW QUESTION: 10**

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: (SHOW ANSWER)**

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.

### **NEW QUESTION: 11**

Which of the following types of policies best helps promote objectivity in the internal audit activity's work?

- A.** Policies that are distributed to all members of the internal audit activity and require a signed acknowledgment.
- B.** Policies that match internal auditors' performance with feedback from management of the area under review
- C.** Policies that keep internal auditors in areas where they have vast audit expertise.
- D.** Policies that provide examples of Inappropriate business relationships

**Answer: D (LEAVE A REPLY)**

Promoting objectivity in internal auditing involves ensuring that auditors avoid conflicts of interest and maintain independence in both fact and appearance. Policies that clearly define and give examples of inappropriate business relationships help auditors understand and avoid situations that could impair their objectivity.

### **NEW QUESTION: 12**

A chief audit executive (CAE) following up on action plans from previously completed audits identifies that management has determined that certain action plans are no longer necessary. If the CAE disagrees with management's decision, which of the following is the most appropriate next step for the CAE to take?

- A.** The CAE must discuss the matter with senior management
- B.** The CAE must discuss the matter with key shareholders.
- C.** The CAE must discuss the matter with legal counsel.
- D.** The CAE must discuss the matter with the board

**Answer: (SHOW ANSWER)**

\* Introduction:

\* The chief audit executive (CAE) must ensure that audit recommendations are appropriately addressed and that any disagreements with management's decisions are resolved effectively.

\* Escalation Process:

\* If the CAE disagrees with management's decision to not implement certain action plans, it is important to escalate the issue to the board to ensure that risks are properly managed and that there is accountability.

\* Options Analysis:

- \* Option A: Discussing with senior management is a preliminary step but may not resolve the issue if there is still disagreement.
- \* Option B: Discussing with key shareholders is not typically within the CAE's direct line of reporting and may not be appropriate.
- \* Option C: Legal counsel can provide advice, but the final decision on audit matters typically rests with the board.
- \* Option D: The most appropriate step is for the CAE to discuss the matter with the board, as they have the ultimate oversight responsibility and can ensure that management's decisions align with the organization's risk management and governance frameworks.
- \* Conclusion:
- \* The CAE should discuss the matter with the board to ensure that management's decision is aligned with the organization's risk management strategy and to address any unresolved issues.

### **NEW QUESTION: 13**

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: (SHOW ANSWER)**

- \* Introduction:
- \* Assurance engagements require internal auditors to maintain objectivity and avoid conflicts of interest.
- \* Role of Internal Auditors in Assurance Engagements:
- \* They must remain independent and not take on roles that could compromise their impartiality.
- \* Options Analysis:
- \* Option A: Determining the objectives, scope, and techniques can be part of their role but does not define an assurance engagement specifically.
- \* Option B: The CAE obtaining skills or competencies personally is not a standard requirement for assurance engagements.
- \* Option C: Not assuming management responsibilities is crucial to maintain independence and objectivity during assurance engagements.

\* Option D: While maintaining objectivity is important, it is not the distinguishing feature of being assigned to an assurance engagement.

\* Conclusion:

\* The key requirement indicating an internal auditor was assigned to an assurance engagement is that they must not assume management responsibilities during the engagement.

#### **NEW QUESTION: 14**

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 (LEAVE A REPLY)**

\* 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.

#### **NEW QUESTION: 15**

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

- A.** Analytical procedures compare information against expectations
- B.** Analytical procedures begin after the engagements planning phase.
- C.** Analytical procedures provide internal auditors with explainable results.
- D.** Analytical procedures are computer-assisted audit techniques

**Answer: A (LEAVE A REPLY)**

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: 16**

According to Herzberg's Two-Factor Theory of Motivation, which of the following factors are mentioned most often by satisfied employees?

- A. Salary and status.
- B. Responsibility and advancement
- C. Work conditions and security.
- D. Peer relationships and personal life

**Answer: B (LEAVE A REPLY)**

Herzberg's Two-Factor Theory, also known as the Motivation-Hygiene Theory, distinguishes between motivators and hygiene factors. Motivators, which are related to job content, lead to higher job satisfaction and are intrinsic factors such as achievement, recognition, responsibility, and advancement. In contrast, hygiene factors, which are related to job context (e.g., salary, status, work conditions), do not lead to higher satisfaction but can cause dissatisfaction if missing.

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#### **NEW QUESTION: 17**

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

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

**Answer: (SHOW ANSWER)**

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: 18**

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

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

**Answer: (SHOW ANSWER)**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility.

Establishing the internal audit activity's position within the organization in an audit charter ensures independence and objectivity by clearly stating the internal audit's role and its reporting lines.

The charter should be approved by the board and senior management to reinforce its authority and protect the internal audit activity from undue influence by management

### **NEW QUESTION: 19**

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 (LEAVE A REPLY)**

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: 20**

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 (LEAVE A REPLY)**

\* Introduction:

\* When the internal audit team lacks necessary skills for an ad-hoc assurance engagement, leveraging internal resources can be a practical solution.

\* Resolving Skill Gaps:

\* Using employees from other departments can provide the needed expertise while maintaining the engagement's integrity.

\* Options Analysis:

\* Option A: Declining the engagement may not be feasible and does not address the need.

\* Option B: Completing the engagement without the required skills can compromise quality.

\* Option C: Using employees from other departments brings in the necessary competencies and supports cross-functional collaboration.

\* Option D: Changing the scope may limit the effectiveness of the engagement.

\* Conclusion:

\* The acceptable resolution is to consider using employees from other departments in the organization to bring in the required skills for the engagement.

#### **NEW QUESTION: 21**

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

**A.** Internal audit activity policies and engagement records provide relevant, sufficient, and competent evidence that the statement is correct.

**B.** The audit committee has reviewed the annual self-assessment results and approved the use of the clause.

**C.** The self-assessment results were validated by a qualified external review team three years prior.

**D.** The internal audit charter, approved by the audit committee, requires conformance with the Standards

**Answer: C (LEAVE A REPLY)**

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

#### **NEW QUESTION: 22**

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 (LEAVE A REPLY)**

\* 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: 23**

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 (LEAVE A REPLY)**

\* Introduction:

\* The monitoring process for internal audit recommendations is a crucial element to ensure that corrective actions are implemented effectively.

\* Responsibilities in Monitoring:

\* Internal auditors are responsible for determining how frequently and in what manner the monitoring of audit recommendations should take place. This includes setting a schedule and deciding on the methods to be used for tracking progress.

\* Options Analysis:

\* Option A: Reporting the monitoring status when requested is reactive and does not encompass the full scope of monitoring responsibilities.

\* Option B: Assisting management with implementing corrective actions may compromise auditor independence and objectivity.

- \* Option C: Determining the frequency and approach to monitoring allows auditors to proactively manage and oversee the implementation of recommendations, ensuring they are addressed in a timely and effective manner.
- \* Option D: Including all types of observations in the monitoring process might not be practical or necessary; focus should be on significant findings.
- \* Conclusion:
  - \* The most appropriate action for internal auditors during the monitoring process is to determine the frequency and approach to monitoring, ensuring a systematic and consistent follow-up on audit recommendations.

### **NEW QUESTION: 24**

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: (SHOW ANSWER)**

- \* 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: 25**

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 (LEAVE A REPLY)**

- \* 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: 26**

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 (LEAVE A REPLY)**

\* 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: 27**

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

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

**Answer: (SHOW ANSWER)**

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

\* Vendor Linkage: JIT systems demand a highly efficient and responsive supply chain.

Linking with vendors' computerized order entry systems ensures that orders are processed quickly and accurately, supporting the JIT philosophy.

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

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

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

References:

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

### **NEW QUESTION: 28**

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: (SHOW ANSWER)**

\* Introduction:

\* Continuing Professional Development (CPD) is essential for internal auditors to maintain and enhance their skills and knowledge.

\* Responsibility for CPD:

\* While the organization and CAE provide support and resources, the primary responsibility for ensuring CPD rests with the individual internal auditors.

\* Options Analysis:

\* Option A: Individual internal auditors are responsible for their own CPD.

\* Option B: The CAE facilitates opportunities for CPD but is not solely responsible.

\* Option C: The board oversees overall governance and strategy but not individual CPD.

\* Option D: Engagement supervisors support auditors in their roles but do not manage their CPD.

\* Conclusion:

\* Individual internal auditors are responsible for ensuring their own continuing professional development.

### **NEW QUESTION: 29**

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

- A.** The internal audit activity will assess the effects of changes in maintenance strategy on the availability of production equipment
- B.** The internal audit activity will inform management on the possible risks of moving the data warehouse to a cloud server maintained by a third party.
- C.** The internal audit activity will ascertain whether the data center security arrangements are compliant with agreed terms
- D.** The internal audit activity will ensure equipment downtime risks have been managed in accordance with the internal policy.

**Answer: B (LEAVE A REPLY)**

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

Objective Characteristics:

\* Informing Management: Providing information on potential risks and advising on risk management strategies is typical for non-assurance engagements. This helps management make informed decisions and manage risks effectively.

\* Assessment and Compliance: Options A, C, and D are more aligned with assurance engagements, where the internal audit activity provides an independent assessment or ensures compliance with policies and procedures.

IIA Guidance:

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

References:

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

### **NEW QUESTION: 30**

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 (LEAVE A REPLY)**

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: 31**

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, or in conjunction with, the engagement client

**C.** Internal auditors may not need to complete a preliminary risk assessment for a consulting engagement as they would when planning an assurance engagement.

**D.** For both consulting and assurance engagements, internal auditors usually form the engagement objectives prior to completing the preliminary risk assessment

**Answer: B (LEAVE A REPLY)**

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.

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**NEW QUESTION: 32**

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

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

**Answer: B (LEAVE A REPLY)**

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

**NEW QUESTION: 33**

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 (LEAVE A REPLY)**

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: 34**

The board of directors of a global organization has found an increased number of reported cases of unethical practices since last year. To assist the board in gaining a better

understanding of the degree of ethics awareness within the organization, which of the following actions should be undertaken?

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

**Answer: (SHOW ANSWER)**

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

- \* Direct Insight from Employees: Surveys can capture the perspectives of a broad employee base, providing direct insights into the awareness and attitudes towards ethics within the organization.
- \* Quantitative and Qualitative Data: A well-designed survey can gather both quantitative data (e.g., percentage of employees aware of the code of ethics) and qualitative data (e.g., specific instances of ethical dilemmas faced by employees).
- \* Identifying Areas of Improvement: Surveys can identify specific areas where employees feel the organization is lacking in terms of ethical practices, which can guide targeted improvements.
- \* Confidentiality and Anonymity: Surveys often ensure confidentiality and anonymity, encouraging more honest and comprehensive responses from employees, which might not be achievable through other means.
- \* Comprehensive Scope: Compared to internal audits or training, surveys can provide a comprehensive overview of the entire organization's ethical climate, from various departments and levels.

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

### **NEW QUESTION: 35**

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

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

**Answer: (SHOW ANSWER)**

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.

### NEW QUESTION: 36

A snow removal company is conducting a scenario planning exercise where participating employees consider the potential impacts of a significant reduction in annual snowfall for the coming winter. Which of the following best describes this type of risk?

- A. Residual
- B. Net
- C. inherent.
- D. Accepted.

**Answer: (SHOW ANSWER)**

**Inherent Risk:** Inherent risk refers to the exposure to risk in its natural state, without considering any controls or mitigation measures. It is the risk that exists before any action is taken to manage it.

\* Example: In the scenario of a snow removal company, the significant reduction in annual snowfall represents an inherent risk as it is a natural condition that affects the company's operations.

**Other Risk Types:**

\* **Residual Risk:** This is the risk that remains after controls and mitigation strategies have been applied.

\* **Net Risk:** Similar to residual risk, it is the risk that remains after considering existing controls.

\* **Accepted Risk:** This is the risk that the organization knowingly accepts after evaluating its impact and likelihood.

**Scenario Planning:** The exercise of considering the impacts of reduced snowfall helps the company understand its inherent risks and prepare for potential adverse outcomes.

### NEW QUESTION: 37

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 (LEAVE A REPLY)**

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

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

**Answer: C (LEAVE A REPLY)**

Once an internal auditor has identified a business process, the next step is to understand the specific activities involved in that process. This includes mapping out each step or action taken within the process to gain a detailed understanding of how it operates.

Identifying process activities helps in evaluating the efficiency, effectiveness, and potential risks associated with the process

### **NEW QUESTION: 39**

Which of the following activities best demonstrates an internal auditor's commitment to developing professional competencies?

- A. Requesting to be part of all engagements on the annual audit plan
- B. Attending a series of locally offered training courses.

**C.** Completing a skills assessment and development plan for targeted training needs.

**D.** Attending a webinar on how to use data analytics

**Answer: C (LEAVE A REPLY)**

\* Introduction:

\* Developing professional competencies requires a structured approach to identify gaps and plan for targeted improvements.

\* Commitment to Development:

\* Conducting a skills assessment and creating a development plan demonstrates a proactive and strategic approach to professional growth.

\* Options Analysis:

\* Option A: Requesting to be part of all engagements shows enthusiasm but does not ensure targeted competency development.

\* Option B: Attending training courses is beneficial but without a targeted plan, it may not address specific needs.

\* Option C: Completing a skills assessment and development plan directly addresses individual training needs and sets a clear path for professional growth.

\* Option D: Attending webinars is useful but should be part of a broader development strategy.

\* Conclusion:

\* The best demonstration of an internal auditor's commitment to developing professional competencies is completing a skills assessment and development plan for targeted training needs.

#### **NEW QUESTION: 40**

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

**A.** Coordinate and facilitate risk workshops for management to attend

**B.** Establish the degree of risk appetite for management to accept.

**C.** Set risk Indicators and mitigation plans for management to Implement.

**D.** Determine the number of significant risks for management to report to the board

**Answer: A (LEAVE A REPLY)**

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

Appropriate Tasks:

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

- \* Risk Appetite and Indicators: Establishing risk appetite (option B) and setting risk indicators and mitigation plans (option C) are management's responsibilities.
- \* Reporting Risks: Determining the number of significant risks to report (option D) should also be a management function.

### **NEW QUESTION: 41**

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 (LEAVE A REPLY)**

\* 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.

### **NEW QUESTION: 42**

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

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

**Answer: A (LEAVE A REPLY)**

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: 43**

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

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

**Answer: B (LEAVE A REPLY)**

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

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

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

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

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

References:

\* IIA Standard 1300 - Quality Assurance and Improvement Program .

### **NEW QUESTION: 44**

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 (LEAVE A REPLY)**

**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: 45**

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: (SHOW ANSWER)**

\* **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.

\* **Importance:** Without a risk assessment, organizations cannot effectively design controls that address relevant risks.

- \* COSO Framework: The Committee of Sponsoring Organizations (COSO) Internal Control Framework outlines risk assessment as a fundamental part of internal control systems.
- \* Components: The framework includes risk assessment, control activities, information and communication, monitoring activities, and the control environment.
- \* Other Preconditions:
- \* Monitoring Process: Important for evaluating the effectiveness of internal controls but not the initial step.
- \* Strategic Objective-Setting Process: Critical for overall organizational success but does not directly develop internal controls.
- \* Information and Communication Process: Supports internal controls by ensuring relevant information is communicated but follows the identification of risks.

### **NEW QUESTION: 46**

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

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

**Answer: C (LEAVE A REPLY)**

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

Key Considerations:

- \* Effectiveness of Risk Management Framework: Ensuring that the risk management framework is robust and effectively implemented across the organization.
- \* Risk Appetite Alignment: Assessing if the decisions made by management are within the boundaries set by the organization's risk appetite statement.
- \* Strategic Objectives: Evaluating if the risk management practices support the achievement of the organization's strategic objectives.

IIA Standards: According to the IIA's International Standards for the Professional Practice of Internal Auditing, internal auditors must evaluate the effectiveness and contribute to the improvement of risk management processes (Standard 2120 - Risk Management).

References:

- \* The alignment of management decisions with the level of risk the organization is willing to accept ensures that the organization does not take on more risk than it is prepared to handle, thereby protecting its assets and ensuring long-term sustainability.
- \* Effective risk management practices help in identifying, assessing, and mitigating risks, which is crucial for the overall governance and operational effectiveness of the organization

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#### **NEW QUESTION: 47**

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 (LEAVE A REPLY)**

\* Introduction:

\* Due professional care requires auditors to plan, execute, and document their work meticulously, ensuring that their findings and conclusions are based on a thorough and objective assessment.

\* Application of Due Professional Care:

\* It involves following a structured approach to audit engagements to ensure that all necessary steps are taken to gather sufficient and appropriate evidence.

\* Options Analysis:

\* Option A: Detecting irregularities and noncompliance instances are outcomes of the engagement but do not inherently demonstrate due professional care.

\* Option B: Lack of significant comments from the supervisor suggests quality but does not demonstrate the systematic approach needed for due professional care.

\* Option C: Systematically planning, executing, and documenting audit procedures directly reflects the auditor's adherence to due professional care principles.

\* Option D: While important, designing engagement objectives to assist the client does not cover the comprehensive nature of due professional care.

\* Conclusion:

\* The best demonstration of due professional care during an assurance engagement is the systematic planning, execution, and documentation of audit procedures.

### **NEW QUESTION: 48**

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

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

**Answer: (SHOW ANSWER)**

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

References:

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

### **NEW QUESTION: 49**

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: (SHOW ANSWER)**

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: 50**

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 (LEAVE A REPLY)**

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.

### **NEW QUESTION: 51**

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

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

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

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

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

A. 1 and 4 only.

B. 2 and 4 only.

C. 1 and 3 only.

D. 2 and 3 only.

**Answer: (SHOW ANSWER)**

Conditions for Risk Management Consulting by Internal Audit:

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

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

IIA Standards:

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

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

Inappropriate Conditions:

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

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

References:

\* The conditions under which internal audit can provide risk management consulting must include a clear strategy for migrating responsibilities back to management and documentation in the internal audit

\* charter to ensure transparency and avoid conflicts of interest.

### **NEW QUESTION: 52**

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

**A.** Wait for the next external assessment and address all of the missing information in the charter based on the recommendations from the external assessment team

**B.** Perform a review of IIA guidance to become acquainted with the latest mandatory elements prior to updating the charter

**C.** Use an internal audit charter template from another organization that operates within the same industry.

**D.** Identify an individual within the internal audit activity who has in-depth knowledge of mandatory IIA guidance elements to address any gaps or areas of the current version of the charter that could be improved

**Answer: B (LEAVE A REPLY)**

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

References:

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

### **NEW QUESTION: 53**

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 (LEAVE A REPLY)**

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: 54**

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

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

**Answer: B (LEAVE A REPLY)**

#### **NEW QUESTION: 55**

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 (LEAVE A REPLY)**

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: 56**

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 (LEAVE A REPLY)**

\* Introduction:

\* Horizontal analysis involves comparing financial data across multiple periods to identify trends and patterns over time.

\* Year-over-Year Trends:

\* This method helps in understanding changes in financial performance and position year-over-year.

\* Options Analysis:

\* Option A: Horizontal analysis is directly related to comparing data year-over-year.

\* Option B: Vertical analysis involves comparing items on a financial statement as a percentage of a base figure within the same period.

\* Option C: Common-size analysis is a type of vertical analysis where all items are expressed as a percentage of a common base.

\* Option D: Ratio analysis evaluates relationships between different financial statement items but is not primarily focused on year-over-year trends.

\* Conclusion:

\* Horizontal analysis is most closely associated with year-over-year trends as it involves reviewing financial data across periods.

### **NEW QUESTION: 57**

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 (LEAVE A REPLY)**

\* Introduction:

\* Understanding cost behavior is crucial in managing production and financial performance in manufacturing.

\* Cost Characteristics:

\* Fixed costs remain constant in total but vary per unit with changes in production volume.

\* Variable costs vary directly with production volume but remain constant per unit.

\* Options Analysis:

\* Option A: Variable costs per unit remain constant regardless of production volume.

\* Option B: Fixed costs per unit decrease as production volume increases, not directly.

\* Option C: Total variable costs vary directly with production volume, not inversely.

\* Option D: Fixed costs per unit will decline as the number of units produced increases due to the spreading of fixed costs over a larger number of units.

\* Conclusion:

\* When production increases by 30%, the fixed cost per unit will decline as the same total fixed cost is allocated over a greater number of units.

### **NEW QUESTION: 58**

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

**A.** The policies and procedures of the internal audit activity.

**B.** The provisions of the internal audit charter.

**C.** The authority of the CEO.

**D.** The IIA's Code of Ethics.

**Answer: B (LEAVE A REPLY)**

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

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

Importance of the Charter: This ensures the independence and objectivity of the internal audit activity, providing a clear mandate for auditors to obtain information from external parties as needed.

**NEW QUESTION: 59**

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

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

**Answer: B (LEAVE A REPLY)**

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

Cost Leadership Strategy:

- \* Efficiency Focus: Cost leadership focuses on gaining efficiencies and reducing costs to offer products or services at a lower price than competitors. This strategy aims to achieve the lowest operational costs and prices in the industry.
- \* Economies of Scale: It involves optimizing production processes, achieving economies of scale, and minimizing expenses to maintain competitive pricing.

Comparison with Other Strategies:

- \* Focus Strategy: Concentrates on serving a particular market niche with specialized products or services.
- \* Innovation Strategy: Emphasizes creating unique products or services through innovation and technological advancement.
- \* Differentiation Strategy: Focuses on offering unique and superior products or services that stand out from competitors.

IIA Guidance and References:

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

**NEW QUESTION: 60**

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

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

**Answer: C (LEAVE A REPLY)**

\* Introduction:

- \* Inherent risk refers to the susceptibility of an assertion to a material misstatement, assuming no related controls.
- \* IPO Risks:
  - \* Initial Public Offerings (IPOs) inherently carry a high level of risk due to the uncertainty and complexity involved in the process, the lack of historical data, and market volatility.
  - \* Options Analysis:
    - \* Option A: Residual risk is the risk remaining after controls are applied.
    - \* Option B: Net risk is not a standard term in audit risk assessments.
    - \* Option C: Inherent risk is the appropriate term for the risks associated with an IPO, which exist before considering any controls.
    - \* Option D: Underlying risk is not a standard audit term.
- \* Conclusion:
  - \* The risk associated with an IPO for a new stock is best described as inherent risk due to the nature of the uncertainties involved.

### **NEW QUESTION: 61**

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

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

**Answer: B (LEAVE A REPLY)**

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

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

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

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

References:

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

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#### **NEW QUESTION: 62**

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

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

**Answer: (SHOW ANSWER)**

\* Introduction:

\* When duplicate payments are identified and corrected, the management's response typically addresses the immediate impact or effect of the issue.

\* Types of Action Plans:

\* Condition-Based: Addresses the condition or the issue itself.

\* Cause-Based: Focuses on the underlying cause of the issue.

\* Root Cause-Based: Delves deeper to identify and address the fundamental reason for the issue.

- \* Effect-Based: Focuses on addressing the consequences or the effects of the issue.
- \* Options Analysis:
- \* Option A: A condition-based action plan would involve identifying and rectifying the condition that led to the duplicate payments.
- \* Option B: A cause-based action plan would address the immediate causes of the duplicate payments.
- \* Option C: A root cause-based action plan would investigate and mitigate the fundamental reasons behind the duplicate payments.
- \* Option D: An effect-based action plan addresses the consequences of the duplicate payments, such as recouping the funds, which is what management did in this scenario.
- \* Conclusion:
- \* Management's action in recouping the duplicate payments is an effect-based action plan as it focuses on addressing the impact of the error.

### **NEW QUESTION: 63**

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: (SHOW ANSWER)**

- \* Introduction:
- \* In a vertically centralized organization, decision-making is concentrated among a small management team, potentially leading to various risks.
- \* Risk Analysis:
- \* Option A: Lack of coordination among business units is less likely in a centralized structure as decisions are made by a central authority.
- \* Option B: Inconsistent operational decisions are less common as central management typically ensures alignment with organizational goals.
- \* Option C: Centralized decision-making can lead to suboptimal decisions due to a lack of diverse perspectives and delayed responses to local issues.
- \* Option D: Duplication of business activities is less relevant in a tightly controlled central structure.
- \* Conclusion:
- \* The primary risk in a vertically centralized organization is suboptimal decision-making, as the concentration of authority can result in a lack of responsiveness and consideration of all relevant factors.

### **NEW QUESTION: 64**

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 (LEAVE A REPLY)**

\* 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:

\* Scope of the Engagement: Define what will be covered in the audit to ensure that management understands the focus areas and objectives.

\* Estimated Time Frame: Provide a timeline for the audit activities, including the start and end dates, to help management plan and allocate resources accordingly.

\* Names of the Auditors: Identify the auditors involved to facilitate communication and coordination with the audit team.

\* 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: 65**

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

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

**Answer: C (LEAVE A REPLY)**

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

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

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

**NEW QUESTION: 66**

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 (LEAVE A REPLY)**

**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: 67**

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: (SHOW ANSWER)**

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: 68**

Which of the following statements is true regarding the reporting of tangible and intangible assets?

- A. For plant assets, cost includes the purchase price and the cost of design and construction
- B. For intangible assets, cost includes the purchase price and development costs.
- C. Due to their indefinite nature, intangible assets are not subject to amortization.
- D. The organization must expense any cost incurred in developing a plant asset

**Answer: A (LEAVE A REPLY)**

Plant Assets Cost: For plant assets, which are tangible fixed assets such as buildings and machinery, the cost includes all expenditures necessary to acquire the asset and prepare it for its intended use. This includes the purchase price and additional costs such as design and construction.

### **NEW QUESTION: 69**

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

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

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

**Answer: B (LEAVE A REPLY)**

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

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

\* Advising on Governance and Risk Management: Serving as advisors, internal auditors can help in

\* establishing effective governance structures and identifying and managing risks associated with CSR initiatives.

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

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

References:

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

### **NEW QUESTION: 70**

Which requirement should the chief audit executive consider when communicating results of the quality assurance and improvement program to the board of a large organization?

- A.** The internal assessment results should be discussed once every five years
- B.** The rating conclusions and the impact from results of the external assessment should be explained
- C.** The results of the external assessment should be discussed every seven years.
- D.** The qualifications and independence of the internal assessment team should be discussed

**Answer: B (LEAVE A REPLY)**

When communicating the results of the quality assurance and improvement program (QAIP) to the board of a large organization, the chief audit executive (CAE) should explain the rating conclusions and the impact of the results from the external assessment. This ensures transparency and helps the board understand the effectiveness and areas for improvement in the internal audit function.

\* **Rating Conclusions:** These provide a summary of the overall quality and performance of the internal audit function.

\* **Impact Explanation:** Discussing the impact helps the board understand how the results affect the internal audit's ability to fulfill its responsibilities and improve its processes.

\* **Transparency:** Clear communication of these aspects helps build trust and provides a basis for informed decision-making by the board.

References:

\* "Internal Audit Quality Assurance and Improvement Program," which emphasizes the importance of explaining rating conclusions and impacts to the board .

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