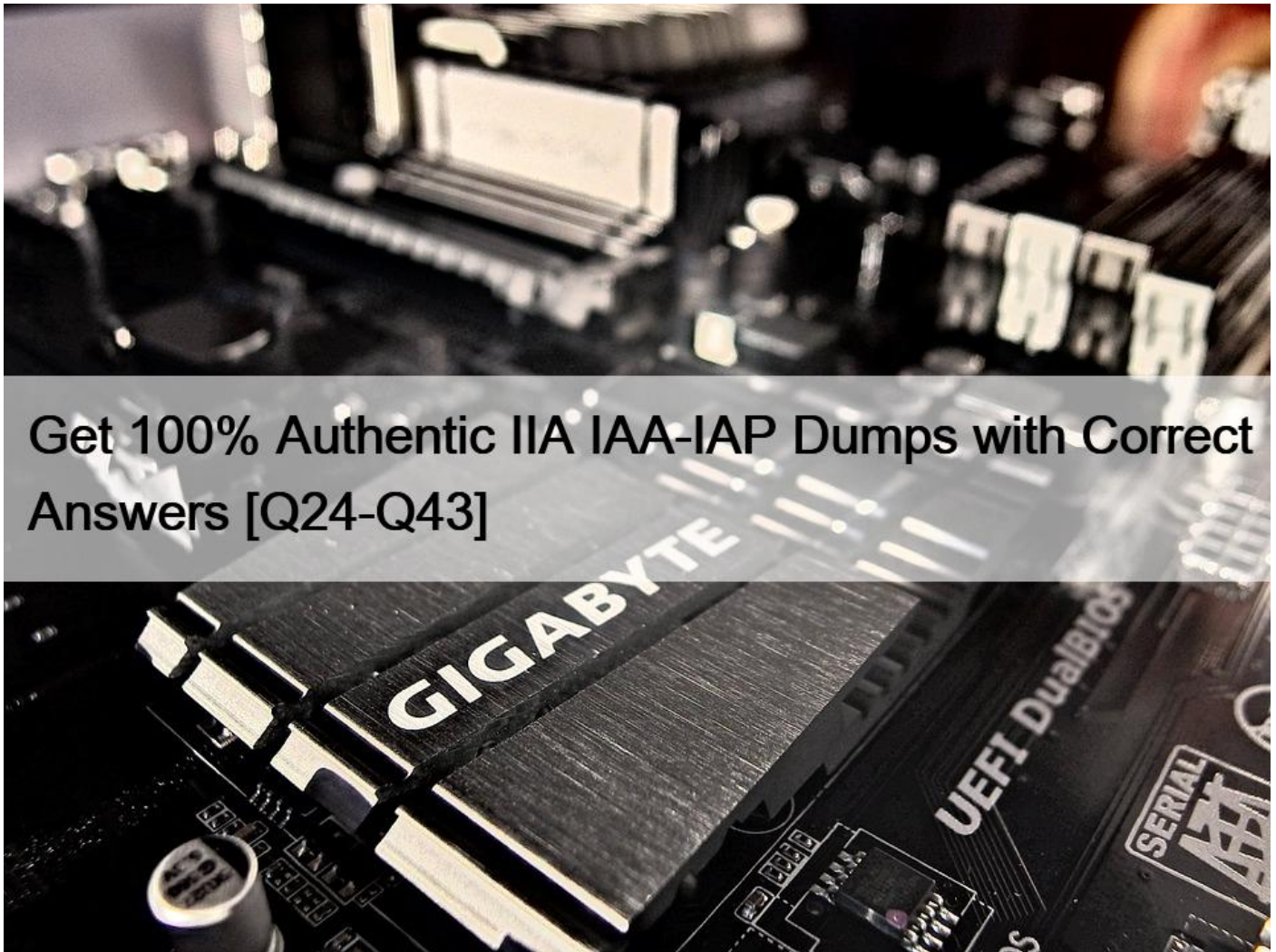


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In addition to the internal auditor, which of the following parties need to be present at an exit or closing conference?

- * Audit committee members
- * Management over areas covered by the engagement
- * The chief executive officer

Comprehensive and Detailed Step-by-Step Explanation:

* Management Over Areas Covered by the Engagement: The purpose of an exit meeting is to discuss findings, conclusions, and recommendations with those responsible for the audited area. Management is a key stakeholder, as they will implement corrective actions.

QUESTION 25

Which of the following statements is true regarding engagement status meetings?

- * They are expected to enhance the relationships between the internal audit activity and management of the area under review.
- * They mainly involve one-way communication from the internal auditor to management of the area under review.
- * They should involve the chief audit executive and senior management.

Comprehensive and Detailed Step-by-Step Explanation:

* Enhancing Relationships: Status meetings facilitate two-way communication, keeping management informed about audit progress and fostering collaboration. Open discussions during these meetings help address concerns and strengthen the relationship between internal audit and management.

QUESTION 26

Which of the following conditions would threaten an internal auditor's objectivity?

- * Providing assurance services over the activity where the internal auditor was employed 10 months prior.
- * Using knowledge that the internal auditor gained in his previous position to update systems and controls descriptions.
- * Providing consulting services over the activity where the internal auditor was employed two years prior.

Comprehensive and Detailed Step-by-Step Explanation:

* Reference to IIA Standards:

* Standard 1120 Individual Objectivity: Internal auditors should avoid situations that impair their ability to provide unbiased assurance.

* Practice Advisory 1130.A1-1: Objectivity is impaired if auditors audit activities they previously managed within the last 12 months.

* Reasoning:

* Option A is correct because the auditor's recent role in the audited area creates a conflict of interest and threatens objectivity.

* Option B does not impair objectivity; leveraging prior knowledge is permissible if applied objectively.

* Option C (consulting services two years prior) does not impair objectivity due to the elapsed time.

* Mitigating Actions:

* Auditors with recent involvement in an audited area should disclose the conflict and be reassigned to preserve objectivity.

QUESTION 27

Which of the following is the best audit procedure to determine whether all of a bank's loans are backed by sufficient collateral, properly aged as to current payments, and properly categorized as current or noncurrent?

- * Use generalized audit software to read the total loan file, age the file by last payment due, and select a statistical sample stratified by the current and aged population. Examine each loan selected for proper collateralization and aging.
- * Select a block sample of all loans in excess of a specified dollar limit and determine whether they are current and properly categorized. For each loan approved, verify aging and categorization.
- * Select a discovery sample of all loan applications to determine whether each application contains a statement of collateral.

Comprehensive and Detailed Step-by-Step Explanation:

* Reference to IIA Standards:

* IIA Performance Standard 1220.A2: Internal auditors must consider using technology-based audit techniques and other data analysis tools.

* Performance Standard 2320 – Analysis and Evaluation: Sufficient and appropriate analysis should be performed to achieve the engagement’s objectives.

* Best Audit Practice for the Scenario:

* Option A involves using generalized audit software (GAS) to extract relevant data from the loan file and stratify it based on specific criteria (e.g., age of loans, collateral backing). This ensures a statistically valid sample.

* By examining a stratified sample, the auditor can determine whether each loan is sufficiently collateralized, aged correctly, and categorized properly.

* This method provides comprehensive coverage while maintaining efficiency and adhering to best practices.

* Why Other Options Are Less Effective:

* Option B: A block sample only includes loans over a certain dollar threshold, which introduces a selection bias and overlooks smaller loans, making the sample less representative.

* Option C: A discovery sample limited to loan applications focuses on documentation compliance (e.g., collateral statements) but does not address loan aging or categorization.

* Practical Implications:

* Generalized audit software automates data analysis, reduces manual effort, and increases the reliability of audit conclusions.

* By selecting a representative statistical sample stratified by population characteristics, auditors gain insights that are applicable to the entire population.

QUESTION 28

Which of the following is most likely to be considered an internal audit assurance service?

* Process design engagement.

* Facilitation engagement.

* Compliance engagement.

Comprehensive and Detailed Step-by-Step Explanation:

* Reference to IIA Standards:

* Definition of Assurance Services: Assurance services involve the objective examination of evidence to provide an independent assessment of governance, risk management, and control processes.

* Compliance engagements align with assurance services by verifying adherence to laws, regulations, or internal policies.

* Reasoning:

- * Option C qualifies as assurance because it involves assessing whether compliance requirements are met.
- * Option A (process design) and Option B (facilitation) are advisory in nature and fall under consulting services, not assurance.
- * Impact on the Organization:
 - * Compliance assurance engagements provide critical oversight, helping organizations maintain accountability and avoid regulatory penalties.

QUESTION 29

Which of the following best describes the knowledge, skills, and abilities that internal auditors should possess with regard to fraud?

- * Expertise in detecting and investigating fraud.
- * Sufficient knowledge to evaluate the risk of fraud.
- * Specialized skills for developing and implementing controls to prevent fraud.

Comprehensive and Detailed Step-by-Step Explanation:

- * Reference to IIA Standards:
 - * Standard 1210.A2: Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization.
 - * They are not expected to have the expertise of a fraud examiner or forensic investigator.

* Reasoning:

- * Option B is correct because internal auditors need enough knowledge to assess fraud risks and provide assurance over controls designed to mitigate those risks.
- * Option A overstates the requirement, as fraud detection and investigation require specialized expertise typically outside the scope of general internal auditing.
- * Option C refers to control development, which is a management responsibility, not an internal audit role.

* Role of Internal Audit in Fraud:

- * Auditors evaluate fraud risks and provide recommendations to improve controls, ensuring alignment with organizational risk management strategies.

QUESTION 30

An internal auditor is reporting on the organization's asset management system. Which of the following would likely add the greatest value to the organization?

- * Confirmation that controls are operating efficiently.
- * Recommendations aimed at reducing risk exposure.
- * Reports that state identified deficiencies were remedied during the audit.

Comprehensive and Detailed Step-by-Step Explanation:

- * Reference to IIA Standards:

* Standard 2410 – Criteria for Communicating: Internal audit reports must provide relevant and constructive information, including recommendations for improvement.

* Recommendations focused on reducing risk exposure align with the purpose of internal auditing:

improving governance, risk management, and controls.

* Reasoning:

* Option Bis correct because providing recommendations aimed at reducing risk exposure directly addresses the organization’s strategic and operational vulnerabilities, adding significant value.

* Option A(confirmation of efficient controls) ensures reliability but does not proactively improve risk management or processes.

* Option C(deficiencies remedied during the audit) is informative but lacks the forward-looking impact of targeted recommendations.

* Adding Value through Recommendations:

* Internal audit recommendations guide management in addressing critical risks, improving operational efficiency, and enhancing organizational resilience.

QUESTION 31

Which of the following would best support the overall risk assessment?

* Policies and process procedures provided by the manager of the process under review.

* Process narratives and process maps with descriptions of risks and controls.

* Detailed organizational charts to understand roles and reporting lines in the area under review.

Comprehensive and Detailed Step-by-Step Explanation:

* Process Narratives and Maps: These provide a comprehensive view of the process, including descriptions of risks and controls, making them the most relevant for supporting risk assessments. They help identify gaps or weaknesses in the control environment.

QUESTION 32

Which of the following would be the best indicator that the organization’s risk management processes are operating effectively?

* Management openly discusses both risks and opportunities facing the organization.

* Management established policies and procedures that state risk will be considered.

* The organization implemented formal operational risk management processes.

Comprehensive and Detailed Step-by-Step Explanation:

* Open Discussions of Risks and Opportunities: The best indicator of effective risk management is a culture where management actively identifies, evaluates, and discusses risks and opportunities, integrating them into decision-making processes.

QUESTION 33

Which of the following consulting engagements leverages an internal auditor’s risk and control knowledge to help the organization keep abreast of emerging risks?

* Advising on control designs

- * Assisting with the development of policies and procedures
- * Facilitating organizational control self-assessments

Comprehensive and Detailed Step-by-Step Explanation:

* **Facilitating Organizational Control Self-Assessments (CSA):** This engagement helps the organization identify, evaluate, and monitor risks and controls. By facilitating CSAs, internal auditors use their expertise to highlight emerging risks and ensure that the organization proactively addresses them.

QUESTION 34

When is it appropriate for the internal auditor to determine the engagement's scope and objectives?

- * During the planning of the engagement
- * During the performance of the engagement
- * In the final engagement report

Comprehensive and Detailed Step-by-Step Explanation:

* **Planning Phase:** According to the International Standards for the Professional Practice of Internal Auditing (ISPPA), Standard 2200 (Engagement Planning), the internal auditor must establish the engagement's objectives, scope, and criteria during the planning phase. This ensures that the audit is focused and aligned with organizational objectives and stakeholder expectations.

* **Performance Phase:** During this phase, auditors execute the planned activities, but the scope and objectives are typically fixed unless there are significant changes in circumstances.

* **Final Engagement Report:** The final report documents the outcomes of the audit, not the scope or objectives, which are pre-determined.

References:

- * IIA Standard 2200: Engagement Planning.
- * IIA Standard 2210: Engagement Objectives.
- * IIA Implementation Guides on Engagement Planning emphasize determining the scope and objectives early to provide direction and clarity.

Thus, the correct answer is A. During the planning of the engagement.

QUESTION 35

According to IIA guidance, which of the following are commonly standardized workpaper elements?

- * Workpapers should include a uniform cross-referencing system
- * Workpapers should be completed in an electronic format only
- * Workpapers should be supported by inclusion of original documentation

Comprehensive and Detailed Step-by-Step Explanation:

* **Uniform Cross-Referencing System:** A standardized cross-referencing system ensures consistency, facilitates review, and allows quick retrieval of supporting documents. This is a best practice widely recommended by the IIA in workpaper documentation.

QUESTION 36

Which of the following is an example of criteria in an engagement communication?

- * Annual business conduct training was not performed over the past two years due to inadequate operating budgets.
- * The audit test was designed to evaluate compliance with the organization's policies and procedures related to business conduct and ethics.
- * As a result of inadequate business conduct training, 16% of the executive team was unaware of their obligation to report potential conflicts of interest.

Comprehensive and Detailed Step-by-Step Explanation:

- * Reference to Criteria:
- * Definition: Criteria are the standards, policies, or benchmarks used to evaluate the subject matter during an audit.
- * IIA Standard 2410 – Criteria for Communicating: Audit reports should clearly state criteria to ensure findings are relevant and actionable.
- * Reasoning:
- * Option B is correct because it references the organization's policies and procedures, which serve as the criteria for evaluating compliance.
- * Option A describes the condition (what was observed), not the criteria.
- * Option C describes the effect (the impact of the observed condition).
- * Importance of Criteria in Audit Reporting:
- * Including criteria provides a basis for comparison, helping stakeholders understand why a finding is significant and how it deviates from expectations.

QUESTION 37

A senior internal auditor is planning a compliance audit of the organization's global purchasing department.

Which of the following criteria is a relevant consideration for establishing the engagement objectives?

- * A list of all items acquired through the organization's global purchasing department in the past year
- * Current governance laws and regulations in the countries in which the organization operates
- * Location of all global operations that acquire goods through the organization's global purchasing department

Comprehensive and Detailed Step-by-Step Explanation:

- * Compliance Audit Criteria: The objective of a compliance audit is to assess adherence to applicable laws, regulations, and internal policies. Considering current governance laws and regulations ensures the audit is aligned with mandatory requirements.

QUESTION 38

Which of the following conditions involving the chief audit executive (CAE) is most likely to impair the independence of the internal audit activity?

- * The CAE regularly attends and participates in critical executive management meetings for the organization.
- * The CAE has direct access to records, personnel, and physical properties throughout the organization.
- * The CAE reports directly to the controller for the organization, and the internal audit activity resides in the office of the comptroller.

Comprehensive and Detailed Step-by-Step Explanation:

* Reporting to the Controller: Independence is compromised when the CAE reports to an operational management role such as the controller, as this creates a conflict of interest and undermines objectivity.

The IIA Standards recommend that the CAE report functionally to the board and administratively to the CEO to preserve independence.

QUESTION 39

During which stage of an audit engagement would the engagement supervisor identify the tasks that were already completed and the remaining tasks to be performed?

- * When allocating resources.
- * When developing the test approach.
- * When documenting the work program.

Comprehensive and Detailed Step-by-Step Explanation:

The engagement supervisor identifies tasks that are completed and remaining tasks during the process of documenting the work program.

* Reference to IIA Standards:

* According to the IIA's Performance Standards 2200 – Engagement Planning, an internal audit work program should detail the procedures necessary to achieve the engagement's objectives.

* Standard 2240 – Engagement Work Program explicitly states that internal auditors must develop and document work programs that achieve the objectives of the engagement.

* Key Responsibilities:

* Documenting the work program involves listing tasks already performed to avoid redundancy and tasks remaining to ensure coverage of all planned activities.

* Supervisors are responsible for overseeing this process and ensuring the work aligns with the overall engagement plan.

* Relevance to Audit Practice:

* The work program serves as a roadmap for auditors, detailing specific steps to be taken.

* Identifying completed and pending tasks ensures proper time management and resource allocation during the engagement.

QUESTION 40

During engagement planning, which of the following sources would provide the internal auditor with relevant information to obtain an understanding of the process under review?

- * Final report from an external financial audit of the process under review, which includes the status of management's corrective action plans
- * Mission, strategic objectives, and key performance indicators of the process under review, based on documented plans, policies, procedures, and discussions with management
- * The internal audit activity's annual audit plan and discussions that led to its development

Comprehensive and Detailed Step-by-Step Explanation:

* **Understanding the Process:** The mission, strategic objectives, and key performance indicators (KPIs) provide a foundational understanding of the process under review and how it aligns with organizational goals. This information helps identify critical areas for assessment during the audit.

QUESTION 41

Which of the following best describes an audit engagement in which the objective is to appraise the economy of an oil shale mining process and the degree to which yearly production targets are being achieved?

- * Due diligence
- * Business process improvement
- * Operational

Comprehensive and Detailed Step-by-Step Explanation:

* **Operational Audit:** This type of audit focuses on evaluating the efficiency, effectiveness, and economy of operations, such as the mining process and production targets in this case.

QUESTION 42

Which of the following internal auditor attributes benefits the most from continuous professional development?

- * Integrity.
- * Objectivity.
- * Competency.

Comprehensive and Detailed Step-by-Step Explanation:

* **Competency:** Continuous professional development ensures auditors maintain and enhance their knowledge, skills, and expertise, directly supporting their ability to perform engagements effectively.

QUESTION 43

During engagement planning, which of the following would provide an internal auditor with a sufficient understanding of the process being audited?

- * The mission, vision, and strategic objectives of the organization.
- * Management's opinion on the thoroughness of a previous internal audit of the same process.
- * The objectives and risk management of the process.

Comprehensive and Detailed Step-by-Step Explanation:

* **Reference to IIA Standards:**

* **Standard 2200 – Engagement Planning:** Internal auditors must develop a plan that considers the objectives, risks, and controls of the area being audited.

* **Standard 2210 – Engagement Objectives:** The objectives of the engagement must be aligned with the organization's processes and risk management practices.

* **Reasoning:**

* **Option C is correct** because understanding the process's objectives and associated risks allows the auditor to design procedures to assess how well risks are managed and objectives are achieved.

* Option A(mission, vision, and strategic objectives) provides organizational context but does not give detailed insights into the specific process.

* Option B(management's opinion) is subjective and insufficient for developing a comprehensive understanding of the process.

* Effective Engagement Planning:

* Focus on process-specific objectives, risks, and controls ensures a targeted and effective audit, contributing to meaningful outcomes.

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