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IIA IIA-CHAL-QISA

Version Demo

Total Demo Questions: 17

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Topic Break Down

Topic	No. of Questions
Topic 1, Foundations of Internal Auditing	73
Topic 2, Internal Audit Engagement	69
Topic 3, Internal Audit Function Management	30
Topic 4, Mix Questions	1
Total	173

QUESTION NO: 1

Which of the following would most likely be found in an organization that uses a decentralized organizational structure?

A. There is a higher reliance on organizational culture

B. There are clear expectations set for employees.

C. There are electronic monitoring techniques employed

D. There is a defined code for employee behavior

ANSWER: A

Explanation:

There is a higher reliance on organizational culture because a decentralized structure distributes decision-making authority across business units, functions, geographic locations, or lower management levels. Employees and managers therefore make many operational decisions without seeking continual approval from a central authority. A well-established culture—shared values, expected behaviors, ethical principles, and commitment to organizational objectives—helps ensure that those independently made decisions remain consistent with the organization's purpose, risk appetite, and control expectations.

From an internal-audit perspective, culture is an important component of the governance and control environment. It influences how personnel interpret policies, escalate concerns, exercise judgment, and accept accountability when detailed centralized supervision is impractical. A strong organizational culture does not replace formal governance or controls; rather, it provides the common behavioral foundation that enables decentralized authority to operate coherently and responsibly. This aligns with the IIA's emphasis on organizational culture and ethical expectations within effective governance, as reflected in the IIA Global Internal Audit Standards. It is also consistent with COSO's recognition that the control environment establishes the standards, values, and discipline that support the internal control system: COSO Internal Control guidance.

QUESTION NO: 2

During follow-up of a high-risk audit observation, management provides evidence that the agreed corrective action has been implemented. The evidence shows that a new approval workflow was configured in the system two days before follow-up. Which of the following is the most appropriate conclusion by the internal auditor?

A. Confirm implementation and schedule additional testing of operating effectiveness.

B. Close the observation because management has implemented the agreed action.

C. Reopen the original engagement because the control was not in place during fieldwork.

D. Escalate the matter to the board because the action was implemented late.

ANSWER: A

Explanation:

Configuration evidence supports that the corrective action was implemented, but two days of operation ordinarily does not provide sufficient evidence that the control is operating effectively over time. The auditor should distinguish implementation from operating effectiveness and assess whether additional follow-up testing is needed after an appropriate period of operation. Closing the issue solely because the workflow exists could overstate the extent to which the underlying risk has been addressed.

QUESTION NO: 3

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 withstakeholders, 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

Explanation:

“Quality assessments focus on the internal audit activity’s structure, relationships with stakeholders, compliance with the Standards, and internal audit staff proficiency.” is the most accurate statement because a quality assurance and improvement program must evaluate the internal audit activity comprehensively, rather than merely review individual engagements. A meaningful quality assessment considers whether the activity is appropriately positioned and resourced, whether its relationships with the board, management, and other stakeholders support its effectiveness, and whether its practices conform with the applicable Global Internal Audit Standards. It also considers whether internal audit personnel collectively possess and maintain the knowledge, skills, and competencies needed to perform their responsibilities effectively.

These matters give the board and chief audit executive useful assurance about both the quality of internal audit work and the activity’s ability to fulfill its purpose. They also identify opportunities for continuous improvement, which is a core outcome of the quality assurance and improvement program. The current Global Internal Audit Standards require a QAIP that covers all aspects of the internal audit function and includes both internal and external assessments. See The IIA’s Global Internal Audit Standards and The IIA’s 2024 Standards resources.

QUESTION NO: 4

An investor has acquired an organization that has a dominant position in a mature, slow-growth industry and consistently creates positive financial income Which of the following terms would the investor most likely label this investment in her portfolio?

A. A star.

B. A cash cow.

C. A question mark.

D. A dog

ANSWER: B

Explanation:

A cash cow is the appropriate label under the Boston Consulting Group growth-share matrix. This portfolio-analysis model classifies a business by relative market share and the growth rate of its market or industry. An organization with a dominant competitive position has high relative market share. Operating in a mature, slow-growth industry places it in a low-growth market. When that combination also produces consistent positive financial income, the business is generating more cash than it generally needs for reinvestment to sustain its established position.

Cash cows are important to investors and management because their predictable operating performance can provide reliable cash flows, support dividends, reduce financing needs, or fund investment in other businesses and strategic initiatives. The description in the question directly aligns with the defining features of a cash cow: market leadership, low market growth, and sustained positive cash generation. The BCG matrix is a strategic portfolio tool rather than an assurance framework, but an internal auditor evaluating strategy, governance, or capital allocation should understand how management may use such classifications in investment and resource-allocation decisions. See the Encyclopaedia Britannica overview of the BCG matrix and the Mind Tools explanation of the growth-share matrix.

QUESTION NO: 5

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

A. Batch controls.

B. Application controls

C. General IT controls.

D. Logical access controls

ANSWER: B

Explanation:

Application controls are the appropriate focus because they are embedded in, or configured for, a particular business application and govern how that application accepts, processes, changes, and records transactions. For an order-management process, these controls can enforce the business rule that an order may be edited or cancelled only while it has a pre-shipment status. Once the system records shipment, configured application logic can lock relevant order fields, prohibit cancellation, require an authorized exception workflow, or create a traceable adjustment transaction rather than allowing the original order to be overwritten.

The auditor should therefore inspect the application's status-transition rules, edit checks, authorization workflow, audit trail, and any configuration controlling post-shipment changes. Testing should include attempting changes to orders in shipped status and reviewing whether the system consistently prevents unauthorized modifications or records approved exceptions completely. This directly addresses the risk that a completed sales or inventory transaction could be altered after fulfillment, affecting revenue, inventory, receivables, and the reliability of the audit trail. The IIA describes IT controls as including controls over application processing and data integrity; see the IIA's GTAG on Information Technology Controls and its Global Internal Audit Standards.

QUESTION NO: 6

While conducting an engagement in the procurement department, the internal auditor noticed that the department head's travel reports showed minor travel expenses, and there were no charges for hotels, meals, or transportation However, the auditor knew that the department head frequently traveled worldwide to meet with suppliers and visit their production sites. Which of the following would be the most appropriate next step for the auditor?

A. The auditor should make a note of the issue for follow-up when employee travel expenses are audited.

B. The auditor should analyze trends and changes among the organization's suppliers over the past few years.

C. The auditor should investigate whether there are any special arrangements regarding senior management travel.

D. The auditor should analyze the list of destinations the department head visited to estimate typical costs

ANSWER: C

Explanation:

The auditor should investigate whether there are any special arrangements regarding senior management travel. The apparent inconsistency between frequent international supplier visits and travel reports containing only minor expenses is an indicator that requires further professional inquiry, but it does not by itself establish improper conduct. An appropriate initial step is to obtain a clear understanding of the circumstances: for example, whether travel is centrally booked or paid through another cost center, whether expenses are paid using a corporate card or executive travel account, or whether an approved policy permits supplier-sponsored travel under defined conditions. Establishing the applicable arrangements, supporting records, approvals, and relevant conflict-of-interest safeguards enables the auditor to assess the risk objectively and determine whether additional procedures are warranted. This approach reflects the internal auditor's duty to exercise due professional care, maintain an impartial and evidence-based mindset, and perform engagement work based on an understanding of the activity and its risks. The IIA's Global Internal Audit Standards emphasize risk-based engagement planning and sufficient, reliable, relevant information to support conclusions. See the IIA Global Internal Audit Standards and the IIA's guidance on ethics.

QUESTION NO: 7

Which of the following methods is most closely associated to year over year trends?

A. Horizontal analysis.

B. Vertical analysis.

C. Common-size analysis.

D. Ratio analysis.

ANSWER: A

Explanation:

Horizontal analysis is most closely associated with year-over-year trends because it compares the same financial-statement line items across successive reporting periods. An auditor or analyst may compare current-year revenue, expenses, receivables, or operating cash flow with the corresponding amounts from prior years, then quantify the change in currency and percentage terms. This makes directional patterns visible, such as sustained revenue growth, a gradual decline in gross margin, or an unusual increase in inventory relative to prior periods. These comparisons support analytical procedures by establishing expectations from historical results and highlighting movements that warrant follow-up audit inquiry or testing. The approach can be extended beyond two years to identify longer-term patterns, seasonality, and departures from an established trend. In contrast to an analysis focused on composition within a single period, horizontal analysis is inherently period-to-period and therefore directly addresses the concept of year-over-year change. The general purpose of analytical procedures—including evaluating plausible relationships among financial and nonfinancial information—is described in ISA 520, Analytical Procedures. A practical overview of comparative, trend-based financial-statement analysis is also available from AccountingCoach's financial analysis resources.

QUESTION NO: 8

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

A. Fixed costs per unit for each additional unit sold.

B. Variable costs per unit for each additional unit sold.

C. Contribution margin per unit for each additional unit sold.

D. Gross margin per unit for each additional unit sold

ANSWER: C

Explanation:

Contribution margin per unit for each additional unit sold. is correct because contribution margin is the sales revenue from one additional unit less the variable costs incurred to produce and sell that unit. At the break-even point, total contribution margin exactly covers total fixed costs, so operating income is zero. Once sales move beyond that point, fixed costs are assumed to remain unchanged within the relevant range. Therefore, the contribution margin generated by every additional unit is no longer needed to recover fixed costs; it flows directly to operating income. For example, if an item sells for $100 and has $60 of variable cost, its $40 contribution margin raises operating income by $40 for each incremental unit sold after break-even has been achieved. This relationship is the central use of cost-volume-profit analysis: it helps management estimate the profit effect of changes in sales volume, price, variable cost, or fixed cost. The calculation and interpretation of contribution margin in break-even analysis are described in OpenStax Principles of Managerial Accounting and in the Corporate Finance Institute contribution-margin overview.

QUESTION NO: 9

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

A. Leadership

B. Documentation.

C. Analysis.

D. Reporting

ANSWER: B

Explanation:

Documentation. is the primary engagement responsibility of an entry-level internal auditor. Entry-level auditors typically work under appropriate supervision while performing assigned procedures and creating clear, complete workpapers. Their documentation records the audit objective, procedures performed, evidence obtained, analysis completed, and conclusions reached. This creates a reliable record demonstrating that the engagement was performed according to the approved work program and provides the basis for supervisory review.

High-quality documentation is fundamental to internal audit quality because it enables an experienced reviewer, with no prior involvement in the work, to understand what was done and how the auditor reached the engagement conclusions. It also supports consistency, retention of institutional knowledge, and the development of the auditor's professional judgment. As auditors gain experience, they increasingly take responsibility for deeper analysis, communicating results, and leading engagement activities; however, accurately documenting assigned audit work is the essential core responsibility at the entry level.

The IIA's Global Internal Audit Standards require internal auditors to document relevant, reliable, and sufficient information supporting engagement results and conclusions. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 10

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

A. The scope of the engagement, the estimated time frame, and the names of the auditors.

B. The estimated time frame, the names of the auditors, and the resources and travel budget

C. The names of the auditors, the resources and travel budget, and the scope of the engagement.

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

ANSWER: A

Explanation:

The scope of the engagement, the estimated time frame, and the names of the auditors is correct because preliminary engagement communication helps establish a shared understanding with the management responsible for the area being reviewed. Communicating the scope identifies the boundaries of the work, such as the activities, processes, locations, period, and subject matter that the engagement will cover. This enables management to understand what information, systems, personnel, and facilities may be needed during fieldwork. Providing an estimated time frame allows management to coordinate availability of key personnel and plan for opening, fieldwork, and closing activities, which is especially important when the engagement concerns a foreign subsidiary. Identifying the auditors promotes efficient coordination, enables management to direct logistical or access questions appropriately, and supports transparency regarding the engagement team. These items are operational planning details that management needs in order to facilitate the work without changing internal audit's independence. The IIA's engagement-planning requirements call for auditors to establish the engagement's objectives, scope, timing, and resource allocations; communicating relevant planning information supports effective execution of those requirements. See the IIA Global Internal Audit Standards and the IIA's Standards resources.

QUESTION NO: 11

In which scenario might it be considered problematic for the chief audit executive (CAE) to provide assurance services over the payroll function?

A. The CAE previously undertook a consulting assignment in that area to improve processes.

B. A couple of years ago, the CAE performed accounting functions for the payroll department.

C. Prior to becoming the CAE, the CAE was the payroll manager.

D. The assurance review was initiated following issues identified during a consulting assignment requested by management.

ANSWER: C

Explanation:

“Prior to becoming the CAE, the CAE was the payroll manager.” is correct because a prior management role over the activity being audited creates a potential impairment to objectivity. As payroll manager, the CAE would have been accountable for payroll processes, controls, decisions, and possibly the resolution of deficiencies. An assurance engagement could therefore require the CAE and internal audit function to assess controls or outcomes that stem from the CAE’s own former decisions or management responsibilities, creating a self-review threat and potentially affecting stakeholder confidence in the engagement’s impartiality.

The Global Internal Audit Standards require internal auditors to maintain objectivity and require the CAE to identify, disclose, and manage actual, potential, and perceived impairments. They also specify that internal auditors generally must not provide assurance services for an activity for which they were responsible within the previous 12 months. Even where the prior payroll-management role falls outside that period, its nature, recency, continuing relationships, and perceived influence should be evaluated. Appropriate safeguards may include disclosure to the board and assigning the engagement leadership and fieldwork to auditors with no such impairment. See the IIA’s Global Internal Audit Standards and its standards resources.

QUESTION NO: 12

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 wasassigned 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: A

Explanation:

The assigned internal auditor must determine the objectives, scope, and techniques of the engagement. This most strongly signals an assurance engagement because assurance work involves the internal auditor independently evaluating evidence and developing an engagement plan that defines what will be assessed, the boundaries of the work, and the procedures needed to reach a conclusion. The auditor’s responsibility for these planning decisions supports an independent, objective assessment of governance, risk management, and control processes. In an assurance engagement, the internal audit function is responsible for establishing the nature and extent of its work in order to provide an assessment to the organization. The IIA describes assurance services as objective assessments designed to provide conclusions regarding an entity, operation, function, process, system, or other subject matter. The IIA’s Global Internal Audit Standards also require internal auditors to plan engagements effectively, including establishing objectives and scope and designing procedures that obtain sufficient, reliable, relevant, and useful information. See the IIA’s Global Internal Audit Standards and its International Professional Practices Framework.

QUESTION NO: 13

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

A. Report the impairment to senior management

B. Discuss the impairment with the audit manager.

C. Ascertain the best approach to disclose the impairment.

D. Decide on the extent of impact of the impairment

ANSWER: B

Explanation:

Discuss the impairment with the audit manager. is the appropriate first action because an individual internal auditor should promptly raise a perceived threat to the internal audit activity's independence through established internal audit reporting lines. The audit manager can assess the circumstances, determine whether the matter affects organizational independence in fact or appearance, preserve relevant facts, and escalate it to the chief audit executive. The chief audit executive has primary responsibility for maintaining the internal audit activity's independence and, when it is impaired, for communicating the nature and impact of that impairment to senior management and the board as appropriate.

This sequence is important because a concern may require timely clarification before its scope, effect on assurance work, and necessary safeguards can be accurately determined. Raising the issue with the audit manager immediately supports professional due care, consistent handling under the internal audit activity's methodology, and appropriate escalation without the individual auditor independently deciding either the full impact or the final disclosure approach. The IIA Global Internal Audit Standards require the chief audit executive to identify, manage, and communicate threats to independence, while internal auditors are expected to report such threats promptly. See the IIA Global Internal Audit Standards and the IIA's Standards overview.

QUESTION NO: 14

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

A. The review notes may be cleared from the final documentation once the engagement supervisor's concerns have been addressed.

B. Management of the area under review must address the engagement supervisors review notes before the audit report can be finalized.

C. The chief audit executive must initial or sign the engagement supervisors review notes to provide evidence of appropriate engagement supervision.

D. Review notes provide documented proof that the engagement is supervised properly and must be retained for the quality assurance and improvement program

ANSWER: A

Explanation:

The review notes may be cleared from the final documentation once the engagement supervisor's concerns have been addressed. Review notes are a supervisory mechanism used during the engagement to identify questions, request clarification, obtain additional support, and help ensure that the work performed and conclusions reached are adequately documented. Their purpose is to facilitate an effective review process, not necessarily to become permanent evidence in the final engagement file. Once the engagement team has resolved the matters raised and the supervisor is satisfied that the workpapers contain sufficient, reliable, relevant, and useful information supporting the engagement results, the notes can be cleared in accordance with the internal audit activity's established methodology. The final documentation must still demonstrate appropriate planning, performance, review, conclusions, and support for communicated results. The IIA's engagement-supervision requirements emphasize that supervision should ensure engagement objectives are achieved, quality is assured, and staff are developed; they do not require unresolved or cleared review-note comments themselves to be retained as final workpaper content. Retention practices should be defined by the chief audit executive's policies and applicable legal or organizational requirements. See the IIA's Global Internal Audit Standards and its professional guidance resources.

QUESTION NO: 15

Which of the following actions should the internal audit activity take during an audit engagement when examining the effectiveness of risk management processes?

A. Evaluate how the organization manages fraud risk.

B. Establish procedures for improving risk management processes.

C. Ensure risk responses are aligned with industry standards

D. Verify that organizational objectives are aligned with each departments objectives.

ANSWER: A

Explanation:

Evaluate how the organization manages fraud risk. is correct because fraud risk is an integral part of the organization's overall risk-management process and is specifically within the scope of an internal audit engagement that evaluates risk-management effectiveness. Internal auditors provide assurance by assessing whether management has appropriately identified fraud exposures, assessed their likelihood and impact, implemented suitable preventive and detective controls, established reporting and investigation arrangements, and monitored whether those measures remain effective. This work evaluates management's processes and control design and operation; it does not transfer ownership of fraud-risk management from management to internal audit.

The Global Internal Audit Standards require internal auditors to evaluate the effectiveness of risk-management processes and consider risks that could affect the achievement of objectives. Fraud can significantly affect financial reporting, operations, reputation, compliance, and stakeholder confidence, so a sound risk-management evaluation includes determining whether fraud risk is addressed in a systematic and proportionate manner. The internal audit activity may also consider relevant fraud indicators, escalation channels, governance oversight, and the organization's response framework. This supports objective assurance to the board and senior management regarding the adequacy of fraud-risk management. See the Global Internal Audit Standards and the IIA Global Guidance.

QUESTION NO: 16

During which phase of the contracting process are contracts drafted for a proposed business activityâ€™

A. Initiation phase.

B. Bidding phase.

C. Development phase.

D. Management phase

ANSWER: C

Explanation:

Development phase. is correct because this is the point in the contracting life cycle at which the prospective arrangement is translated into a formal contractual document. Following the identification of a business need and, where applicable, solicitation and evaluation of prospective suppliers, the parties develop the agreement's specific provisions. This includes defining the scope of goods or services, deliverables, performance measures, pricing and payment terms, responsibilities, service levels, information-security requirements, confidentiality, legal and regulatory obligations, dispute handling, termination provisions, and approval requirements. The draft is then reviewed and negotiated by appropriate business, procurement, legal, risk, and information-security stakeholders before execution. A well-developed contract provides a clear, enforceable basis for managing the supplier relationship and for monitoring whether the agreed activity achieves its intended objectives. For internal auditors, this phase is particularly relevant because inadequate requirements, controls, responsibilities, or performance criteria embedded in the contract can impair later oversight and create operational, compliance, financial, or technology risk. The IIA's standards emphasize evaluating governance, risk management, and control processes, including risks associated with reliance on external parties. See the [IIA Global Internal Audit Standards] and the [NIST third-party risk management guidance].

QUESTION NO: 17

During an audit of an automated purchase-to-pay process, the internal auditor finds that purchase orders, receiving reports, and invoices are matched by the system before payment. The auditor is concerned that the automated match could be bypassed through a manual override. Which of the following procedures would provide the most relevant evidence of whether overrides are appropriately controlled?

A. Review override transactions for authorized approval and documented justification.

B. Recalculate the three-way match for a sample of normally processed payments.

C. Confirm selected vendor balances directly with suppliers.

D. Compare current purchase prices with prices in approved vendor contracts.

ANSWER: A

Explanation:

Reviewing override transactions for evidence of authorized approval and a documented reason most directly tests the risk that the automated three-way match is bypassed without appropriate control. The auditor should determine whether overrides are restricted, logged, approved by an appropriate individual, and subject to subsequent review. Testing the general operation of the automated match would not address transactions processed outside that normal control path. Reviewing unmatched invoices alone may identify exceptions but would not demonstrate that authorized overrides were properly controlled.