

Exam Number/Code:IIA-CIA-Part3

Exam Name:Certified Internal Auditor -
Part 3, Business Analysis and Information
Technology

Version: Demo

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QUESTION NO: 1

A traditional quality control process in manufacturing consists of mass inspection of goods only at the end of a production process. A major deficiency of the traditional control process is that:

- A. It is expensive to do the inspections at the end of the process.
- B. It is not possible to rework defective items.
- C. It is not 100% effective.
- D. It does not focus on improving the entire production process.

Answer: A

Explanation:

The process used to produce the goods is not thoroughly reviewed and evaluated for efficiency and effectiveness. Preventing defects and increasing efficiency by improving the production process raises quality standards and decreases costs.

QUESTION NO: 2

If a manufacturer has established a limit on the number of defects that are tolerable in the final assembly of its product, which of the following quality control procedures should be employed?

- I. Inspect completed goods for compliance with established tolerances.
- II. Review sales returns for defects not detected during the final inspection process.
- III. Compare materials and machinery specifications with original product designs.
- IV. Establish a quality circle that includes management and subordinates to discuss labor efficiency.

- A. I, III, and IV.
- B. II and III only.
- C. I, II, and III.
- D. III and IV only.

Answer: C

Explanation:

Inspecting goods after completion of the production process and counting defective goods returned by customers are product quality procedures. They measure the level of product conformance with customer expectations. Verifying materials and machinery specifications are process quality procedures because they emphasize the inputs to the process and the process itself.

QUESTION NO: 3

The most important component of quality control is:

- A. Ensuring goods and services conform to the design specifications.
- B. Satisfying upper management.
- C. Conforming with ISO-9000 specifications.
- D. Determining the appropriate timing of inspections.

Answer: A

Explanation:

The intent of quality control is to ensure that goods and services conform to the design specifications. Whether the focus is on feedforward, feedback, or concurrent control, the emphasis is on ensuring product or service conformity.

QUESTION NO: 4

Management of a company is attempting to build a reputation as a world-class manufacturer of quality products. Which of the following measures would not be used by the firm to measure quality?

- A. The percentage of shipments returned by customers because of poor quality.
- B. The number of parts shipped per day.
- C. The number of defective parts per million.
- D. The percentage of products passing quality tests the firsttime

Answer: B

Explanation:

The number of parts shipped per day would most likely be used as a measure of the effectiveness and efficiency of shipping procedures, not the quality of the product. This measure does not consider how many of the parts are defective.

QUESTION NO: 5

Which of the following is not an appropriate measure of quality?

- A. Market share.
- B. Delivery performance.
- C. Customer satisfaction.
- D. Raw materials costs.

Answer: D

Explanation:

Emphasizing lower input costs may result in more defective output, and higher input costs may or may not reflect the procurement of better raw materials. Financial measures are thus mostly unsuitable for measuring quality.

QUESTION NO: 6

Which of the following criteria would be most useful to a sales department manager in evaluating the performance of the manager's customer-service group?

- A. The customer is always right.
- B. Customer complaints should be processed promptly.
- C. Employees should maintain a positive attitude when dealing with customers.
- D. All customer inquiries should be answered within 7 days of receipt.

Answer: D

Explanation:

A criterion that requires all customer inquiries to be answered within 7 days of receipt permits accurate measurement of performance. The quantitative and specific nature of the appraisal using this standard avoids the vagueness, subjectivity, and personal bias that may afflict other forms of personnel evaluations.

QUESTION NO: 7

An example of an internal nonfinancial benchmark is:

- A. The labor rate of comparably skilled employees at a major competitor's plant.
- B. The average actual cost per pound of a specific product at the company's most efficient plant.
- C. A US \$50,000 limit on the cost of employee training programs at each of the company's plants.
- D. The percentage of customer orders delivered on time at the company's most efficient plant.

Answer: D

Explanation:

Benchmarking is a continuous evaluation of the practices of the best organizations in their class and the adaptation of processes to reflect the best of these practices. It requires analysis and measurement of key outputs against those of the best organizations. This procedure also involves identifying the underlying key actions and causes that contribute to the performance difference.

The percentage of orders delivered on time at the company's most efficient plant is an example of an internal nonfinancial benchmark.

QUESTION NO: 8

Quality control circles are now used all over the world. The circles typically consist of a group of five to ten employees who meet regularly. The primary goal of these circles is to:

- A. Improve the quality of leadership in the organization.
- B. Tap the creative problem-solving potential of every employee.
- C. Improve communications between employees and managers by providing a formal communication channel
- D. Allow for the emergence of team leaders who can be targeted for further leadership development.

Answer: B

Explanation:

Quality control circles are used to obtain voluntary input from employees to promote problem solving. Potential benefits include lower costs, better employer-employee relations, and greater employee commitment.

QUESTION NO: 9

A company with many branch stores has decided to use its best-performing store as a benchmark organization for the purpose of analyzing the accuracy and reliability of branch store financial reporting.

Which one of the following is the most likely measure to be included in a financial benchmark?

- A. High turnover of employees.
- B. High level of employee participation in setting budgets.
- C. High amount of bad debt write-offs.
- D. High number of suppliers.

Answer: C

Explanation:

Internal benchmarking is the application of best practices in one part of the organization (e.g., a high-performing branch store) to its other parts (other branches). This process requires, among other things, use of quantitative and qualitative measures. A key indicator for financial performance measurement is the amount of bad debt write-offs. A high level of bad debt write-offs could indicate fraud, which would compromise the accuracy and reliability of financial reports. Bad debt write-offs may result from recording fictitious sales.

QUESTION NO: 10

The management and employees of a large household goods moving company believe that if it became nationally known as adhering to total quality management and continuous improvement, one result would be an increase in the company's profits and market share. What should the company focus onto achieve quality more economically?

- A. Appraisal costs.
- B. Prevention costs.
- C. Internal failure costs.
- D. External failure costs.

Answer: B

Explanation:

Prevention costs are incurred to prevent defects. Prevention is ordinarily less costly than the combined costs of appraisal, internal failure, and external failure.

QUESTION NO: 11

The cost of scrap, rework, and tooling changes in a product quality cost system is categorized as a (n):

- A. Training cost.
- B. External failure cost.
- C. Internal failure cost.
- D. Prevention cost.

Answer: C

Explanation:

Internal failure costs are incurred when detection of defective products occurs before shipment. Examples of internal failure costs are scrap, rework, tooling changes, and downtime.

QUESTION NO: 12

The four categories of costs associated with product quality costs are:

- A. External failure, internal failure, prevention, and carrying.
- B. External failure, internal failure, prevention, and appraisal.
- C. External failure, internal failure, training, and appraisal.
- D. Warranty, product liability, training, and appraisal.

Answer: B

Explanation:

Prevention costs are incurred to prevent defects. Appraisal costs are incurred to detect defective output during and after the production process. Internal failure costs are associated with defective output discovered before shipping. External failure costs are associated with defective output discovered after it has reached the customer.

QUESTION NO: 13

Which of the following costs of quality is a failure cost?

- A. Systems development costs.
- B. Costs of inspecting in-process items.
- C. Contract penalty for delivery of nonconforming goods.
- D. Costs of quality circles.

Answer: C

Explanation:

Failure costs are incurred after defective output has been removed from production. A contract penalty for faulty goods is an example of an external failure cost.

QUESTION NO: 14

The costs of quality that are incurred in detecting units of product that do not conform to product specifications are referred to as:

- A. Prevention costs.
- B. Appraisal costs.
- C. Rework costs.
- D. Failure costs.

Answer: B

Explanation:

Appraisal activities include inspection and testing. Appraisal costs (such as test equipment maintenance and destructive testing) are incurred to detect products not conforming to specifications.

QUESTION NO: 15

All of the following are generally included in a cost-of-quality report except:

- A. Warranty claims.
- B. Design engineering.

- C. Supplier evaluations.
- D. Lost contribution margin.

Answer: D

Explanation:

A cost-of-quality report includes most costs related to quality, specifically the costs of prevention, appraisal, internal failure, and external failure.