



# IIA-CIA-PART4<sup>Q&As</sup>

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### QUESTION 1

The advantages of vertical integration include:

- A. Increases in incentives.
- B. The ability to apply the same managerial methods to all subunits.
- C. The need to balance the operations of subunits.
- D. Stable relationships between internal sellers and buyers.

Correct Answer: D

Stable relationships between internal sellers and buyers create economies because they need not fear loss of the related buyers and sellers. They also need not fear undue economic pressure from each other. Furthermore, because the relationship is locked in, more efficient procedures for their relationship (e.g., dedicated controls and records) may be implemented. Another advantage is that internal sellers and buyers may more fully adapt to each other's needs than they would or could in dealings with outsiders.

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### QUESTION 2

Which of the following is an example of upward communication?

- A. Management's notices on bulletin boards.
- B. Grievance actions.
- C. Informational inserts in pay envelopes.
- D. Personnel policy manuals.

Correct Answer: B

Grievance actions are a formal means of bringing employee dissatisfaction to the attention of management, i.e., from the bottom upward.

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### QUESTION 3

Which one of the following is not an example of formal internal communication?

- A. Input for the yearly budget provided by the Purchasing Department to the director of budgeting.
- B. Environmental impact statements.
- C. Expense account reports.
- D. Safety bulletins.

Correct Answer: B



A formal communication is conducted through the formal structure of the organization. Informal communication operates outside of officially established channels. An internal communication is one that is both generated and received within the organization. An environmental impact statement is generated within the organization, but the recipient (a governmental body) is outside the organization.

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#### QUESTION 4

According to Michael E. Porter's analysis of the evolution of global industries, the factor that is always necessary for an industry to become global is:

- A. The existence of environmental triggers to begin globalization.
- B. A strategic innovation.
- C. Marketing economies of scale.
- D. Changes in the costs of the factors of production.

Correct Answer: B

The triggers of the evolution of global industries establish or exploit the sources of global competitive advantage. They also may negate the impediments to global competition. However, negating impediments will not result in globalization unless the firm has sufficient strategic advantages. Moreover, a strategic innovation is always necessary for an industry to become global. Environmental triggers include an increase in any of the types of economies of scale, lower transportation or storage costs, changes in distribution channels that facilitate access by foreign firms, changes in the costs of the factors of production, increased similarity of economic and social conditions in other nations, and reduction in governmental constraints. However, strategic innovations may begin globalization even if environmental triggers are not present. These innovations include, for example, product redefinition, reducing the costs of adapting a product for sale in different nations, design changes, and elimination of constraints.

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#### QUESTION 5

Forward downstream integration most likely:

- A. Allows the firm to protect its proprietary knowledge from suppliers.
- B. Implies that the firm can fully support an efficient subunit but has additional needs to be met in the market.
- C. May allow the firm's subunit(s) to maintain constant production rates while external parties bear the risk of fluctuations.
- D. Improves access to information about demand.

Correct Answer: D

A strategic advantage of forward integration is that access to market information is improved. A forward subunit (the demand leading stage) controls the amount and mix of demand to be satisfied upstream. At the very least, forward integration improves the timeliness of (1) demand information, (2) production planning, (3) inventory control, and (4) the costs of being under- or over-stocked. It also may provide information about changing tastes, competitors' moves, and the ideal mix of products.



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