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NEW QUESTION: 1
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Answer: C (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Reference to IIA Standards:
* Standard 2130 - Control: Internal audit must evaluate and contribute to the improvement of governance, risk management, and control processes.
* Designing or operating controls (Options A and B) risks impairing internal audit independence (Standard 1100).
* Reasoning:
* Option Caligns with internal audit's role of evaluating internal controls objectively.
* Option Acould involve a management function, which compromises independence.
* Option Bfocuses on monitoring, a management responsibility, and does not leverage internal audit's evaluative expertise.
* Best Practice:
* By evaluating controls, internal auditors provide actionable insights that help improve control effectiveness and efficiency without compromising independence.

NEW QUESTION: 2
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Answer: B (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:

* Control of Goods: The control of goods is generally considered part of inventory management or logistics, not the purchasing process. The purchasing process typically endswith the receipt of goods or services and ensuring appropriate payments.

* Other Options:

* Authorization of Requisitions: Within scope, as it is directly related to the initiation of the purchasing process.

* Matching Goods Received to Requisitions: Part of the purchasing process audit scope to ensure accurate and legitimate transactions.

Thus, the correct answer isB. Control of Goods.

NEW QUESTION: 3

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Answer: C (LEAVE A REPLY)

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 andundermines objectivity.

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

NEW QUESTION: 4

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Answer: B (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:

* Diamond Shape: In process mapping, a diamond typically represents a decision point where a choice must be made based on conditions or criteria (e.g., "Yes" or "No").

* Example: "Is the invoice valid?" If yes, the process continues to payment; if no, it is rejected.

NEW QUESTION: 5

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Answer: A (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Reference to the IIA Code of Ethics - Confidentiality:
* The principle of confidentiality requires internal auditors to respect and protect the value of information obtained during the course of their work and to avoid using it for personal gain.
* Reasoning:
* Option Ais correct because refusing to use audit information for personal financial gain directly aligns with the principle of confidentiality.
* Option Brelates to competency and professional judgment, not confidentiality.
* Option Cpertains to avoiding conflicts of interest, which is an example of the principle of objectivity.
* Application of Confidentiality:
* Internal auditors must safeguard sensitive information and use it solely for legitimate audit purposes.

NEW QUESTION: 6
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Answer: (SHOW ANSWER)
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:

* OptionAinvolves usinggeneralized 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.

NEW QUESTION: 7

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Step-by-Step Explanation:
* Definitions from Risk Management Frameworks (e.g., COSO ERM):
* Inherent Risk: The raw or natural level of risk before any controls or mitigating actions are applied.
* Residual Risk: The remaining level of risk after implementing controls or risk responses.
* Reasoning:
* Option Cis correct because it captures the essence of inherent risk as the baseline risk level and residual risk as the mitigated level after control actions.
* Option Ainaccurately states that residual risk is tied to the completion of a risk assessment process instead of mitigation actions.
* Option Bconfuses inherent risk with risk appetite, which reflects the organization's tolerance for risk.
* Significance of Differentiation:

* Understanding both risk levels helps prioritize resources for managing critical risks and improving controls.

NEW QUESTION: 8

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Step-by-Step Explanation:

* Reference to Benchmarking:

* External benchmarking involves comparing the organization's metrics with those of other entities, typically competitors or industry averages.

* Standard 1210 - Proficiency: Internal auditors must have knowledge to evaluate performance against external benchmarks effectively.

* Reasoning:

* Option Bdemonstrates external benchmarking by comparing the organization's return on equity with a competitor's performance.

* Option AandOption Cfocus on internal analysis within the organization and do not use external references.

* Application in Internal Auditing:

* External benchmarking identifies competitive gaps, informs strategic decisions, and supports recommendations for improvement.

NEW QUESTION: 9

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Answer: B (LEAVE A REPLY)

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.

NEW QUESTION: 10

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Answer: A (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:
* Reference to Best Practices in Procurement:
* Clearly specifying needs at the outset ensures that procurement decisions align with organizational objectives and operational requirements.
* Reasoning:
* Option Ais correct because specifying needs at the beginning helps avoid over-purchasing, under- purchasing, or acquiring unsuitable items, thus improving the overall effectiveness of the procurement process.
* Option B(comprehensive documentation) is important for transparency and compliance but does not directly improve the effectiveness of procurement outcomes.
* Option C(qualified professionals) ensures competence but is secondary to having clear, specified needs driving the process.
* Impact of Clear Needs Specification:
* It ensures the procurement process delivers value, meets quality requirements, and aligns with operational demands.

NEW QUESTION: 11

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Answer: (SHOW ANSWER)
Comprehensive and Detailed Step-by-Step Explanation:
* Skills-Based Recruitment: Internal audit activities require diverse skills to handle complex audits.
Recruiting candidates based on the skills needed ensures the internal audit activity can fulfill its mandate effectively.

NEW QUESTION: 12
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Answer: C (LEAVE A REPLY)
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 Cis 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.

NEW QUESTION: 13
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Answer: A (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:

* Lost Payment Discounts: By paying all invoices after 30 days, regardless of terms, the organization risks losing early payment discounts offered by vendors, leading to poor cash management.

NEW QUESTION: 14

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Answer: A (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:

* Challenges with Computer-Assisted Audit Tools (CAATs):
* One of the most common issues auditors face is obtaining access to the data needed for analysis, especially when data is stored in secure or restricted systems.
* Access issues may arise due to technical restrictions, security policies, or inadequate documentation of data sources.
* Reasoning:
* Option Ais correct because gaining access to relevant, complete, and reliable data is a frequent challenge when using computerized audit tools.
* Option Bis less common, as CAATs are often designed for use by auditors without requiring advanced IT skills.
* Option Crefers to reliance on IT personnel, which is less relevant for independent auditors using their own tools.
* Mitigating Access Challenges:
* Establishing clear communication with IT and obtaining necessary approvals in advance can help overcome data access issues.

NEW QUESTION: 15

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Step-by-Step Explanation:

* Reference to IIA Standards:

* Standard 2130 - Control: Internal audit must assess whether controls ensure compliance and prevent fraud.
* Reasoning:
* Option Adirectly addresses the root cause: payment for unrendered services. Requiring acknowledgment of receipt ensures only valid invoices are paid.
* Option B(observing invoice input) ensures data entry accuracy but does not address fraud.
* Option C(verifying amounts) ensures correct payments for legitimate invoices but does not prevent unauthorized payments.
* Best Practice:
* Verifying acknowledgment of services before payment is a preventive control, reducing fraud risk.

NEW QUESTION: 16
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Answer: B (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Training and Mentoring: Offering continuous training and mentoring ensures auditors enhance their skills and maintain proficiency, aligning with IIA Standard 1230: Continuing Professional Development.

NEW QUESTION: 17
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Answer: (SHOW ANSWER)
Comprehensive and Detailed Step-by-Step Explanation:

* Reference to IIA Standards:
* Standard 1110 - Organizational Independence: Internal audit must be independent of the activities it audits to maintain objectivity.
* Standard 1130 - Impairment to Independence or Objectivity: Internal audit's independence is compromised if auditors take on roles that involve making decisions or implementing controls, as this may bias their findings.
* Reasoning:
* Option Bis correct because setting the organization's risk appetite is a management decision and represents a strategic role that compromises the internal audit's independence.
* Option A(championing the establishment of risk management) andOption C(coordinating risk management) do not directly impair independence, though care should be taken to avoid direct involvement in risk management decisions. These activities can be part of advisory services and not necessarily a threat to independence if appropriately managed.
* Maintaining Independence:
* Internal auditors should provide assurance on risk management but not take on roles that involve decision-making or implementing risk management processes.

NEW QUESTION: 18
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Answer: A (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Reference to Embedded Audit Modules:
* Definition: Embedded audit modules are software components integrated into systems to monitor transactions in real-time or at regular intervals.
* They supportcontinuous auditingby flagging anomalies or predefined conditions.
* Reasoning:
* Option Ais correct because embedded audit modules facilitate continuous monitoring by evaluating transactions as they occur.
* Option Brelates to detecting unauthorized program code, a task better suited to software integrity checks or penetration testing.
* Option C(verifying account balances) is a manual or batch review task unrelated to embedded audit modules.
* Benefits of Embedded Audit Modules:
* Real-time insights into compliance, fraud detection, and operational inefficiencies.
* Enhance audit efficiency and effectiveness in high-transaction environments.

NEW QUESTION: 19

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Answer: (SHOW ANSWER)
Comprehensive and Detailed Step-by-Step Explanation:
* Root Cause Analysis: This method identifies underlying causes of issues rather than just addressing symptoms, allowing internal auditors to recommend targeted improvements to controls and processes.
By identifying multiple causes, auditors can propose tailored control enhancements to address each cause effectively.

NEW QUESTION: 20
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Answer: C (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Control Self-Assessment (CSA): This tool involves management and staff in evaluating controls and risks, fostering collaboration between operational teams and internal audit.
CSA supports shared responsibility for risk management and control improvement.

NEW QUESTION: 21
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Answer: A (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Reference to IIA Standards:
* Standard 2120 - Risk Management: Internal audit must assess and evaluate the risk management processes of the organization.
* Identifying risk scenarios supports engagement objectives by determining vulnerabilities and threats to process objectives.
* Reasoning:

* Option Ais correct because risk scenarios provide insights into potential events or conditions that could hinder achieving objectives. This allows auditors to assess risk exposure and evaluate controls effectively.
* Option B(control effectiveness) is a subsequent step in the audit process but does not explain the need for identifying risk scenarios.
* Option Cfocuses on evaluating management's process, which is broader than identifying specific risks for the engagement.
* Practical Application:
* Risk scenarios guide auditors in tailoring their approach to address areas of greatest vulnerability.

NEW QUESTION: 22

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Answer: B (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:

* Narrative Memorandum: A narrative is most suitable for documenting simple processes that do not require detailed visuals or flowcharts for clarity. If the process can be effectively described in writing, a narrative is appropriate.

NEW QUESTION: 23

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Answer: C (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:

* Opportunity Element: This element of the Fraud Triangle refers to situations where weaknesses in controls provide the ability for someone to commit fraud without being detected. Poor segregation of duties, as described in Option C, creates such opportunities.
* Example: Allowing an executive assistant to authorize payments without oversight significantly increases the risk of fraud.

NEW QUESTION: 24

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Step-by-Step Explanation:

* Reference to IIA Standards:
* Standard 2130 - Governance: Internal audit must assess compliance with applicable laws, regulations, and industry standards.
* Compliance Auditing: These engagements assess whether the organization adheres to specific rules and regulations.
* Reasoning:
* Option Cinvolves newly imposed health and safety regulations, making compliance auditing critical to ensure the organization avoids penalties or operational disruptions.
* Option Apertains to financial reporting, typically addressed in assurance or financial audits.
* Option Binvolves a new service launch, which may require consulting or operational audits but not necessarily compliance-focused.

NEW QUESTION: 25

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Answer: (SHOW ANSWER)

Comprehensive and Detailed Step-by-Step Explanation:

* Allowing the Suspect to Use Their Own Words: Encouraging the suspect to speak freely provides the investigator with unfiltered insights and may reveal inconsistencies or useful details. This technique also minimizes the risk of appearing coercive or intimidating.

NEW QUESTION: 26

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Answer: C (LEAVE A REPLY)

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.

NEW QUESTION: 27
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Answer: B (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Definition of Detective Controls:
* Detective controls are designed to identify errors, irregularities, or fraudulent activities after they occur, enabling corrective action.
* Reasoning:
* Option Bis correct because reconciliations compare records (e.g., bank statements against ledgers) to detect discrepancies.
* Option A(segregation of duties) andOption C(required authorizations) are preventive controls designed to stop errors or fraud before they occur.
* Role of Detective Controls:
* Detective controls play a critical role in monitoring and identifying issues, supporting the overall control environment.

NEW QUESTION: 28
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Answer: B (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Exit Meetings: The purpose of an exit meeting is to ensure that management understands and agrees (or documents any disagreements) with the audit findings, conclusions, and recommendations. Proper documentation ensures that there is a record of the discussion, which can be referred to later if disputes arise about the content.

NEW QUESTION: 29
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Answer: A (LEAVE A REPLY)

Comprehensive and Detailed Step-by-Step Explanation:

* Planning Phase: According to the International Standards for the Professional Practice of Internal Auditing (ISPPIA),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 isA. During the planning of the engagement.

NEW QUESTION: 30

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Answer: (SHOW ANSWER)

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.

NEW QUESTION: 31

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Answer: C (LEAVE A REPLY)

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.

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Answer: C (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Reference to IIA Standards:
* Standard 2330 - Documenting Information: Workpapers must be sufficient, reliable, relevant, and useful to support audit findings and conclusions.
* Practice Advisory: Clear and complete documentation enhances understanding and ensures consistency in audit conclusions.
* Characteristics of Quality Workpapers:
* They should clearly articulate audit procedures, results, and conclusions in a way that another auditor or stakeholder can understand and rely on them.
* While electronic and indexed workpapers (Option B) are desirable for organization, they are not defining characteristics of quality.

NEW QUESTION: 33
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Answer: C ([LEAVE A REPLY](#))

Comprehensive and Detailed Step-by-Step Explanation:

* Reference to IIA Standards:
* Standard 1220 - Due Professional Care: Internal auditors must consider the reliability of other assurance providers.
* Standard 2050 - Coordination and Reliance: Internal auditors may rely on the work of other assurance providers if their objectivity, independence, and competency are assessed and deemed adequate.
* Why Evaluate EHS Work:
* The EHS review results can be useful if the review process was thorough, objective, and performed by competent individuals.
* Dismissing their results without evaluation (Option A) could lead to inefficiencies or redundant work.
* Canceling the engagement entirely (Option B) ignores the internal audit's responsibility for independent assurance.
* Audit Planning Impact:
* By leveraging the EHS review where appropriate, the internal auditor can focus resources on other areas not covered or on verifying key findings.

NEW QUESTION: 34

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Answer: C ([LEAVE A REPLY](#))

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.

NEW QUESTION: 35

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Answer: C ([LEAVE A REPLY](#))

Comprehensive and Detailed Step-by-Step Explanation:
* Ongoing Risk Evaluation: Insights gathered from multiple audit engagements over the past year provide a broad and detailed perspective on the effectiveness of risk management across the organization.

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Answer: (SHOW ANSWER)
Comprehensive and Detailed Step-by-Step Explanation:
* Organization-Level Controls: These controls address risks at the entity-wide level, such as governance, tone at the top, and policies affecting multiple processes. Personnel policies requiring qualified employees are an organization-level control as they apply broadly across the organization.

NEW QUESTION: 37
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Answer: A (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Reference to Internal Controls:
* Preventive controlsare designed to prevent errors, fraud, or irregularities before they occur by ensuring that processes and activities are performed correctly from the start.
* Standard 2130 - Control: Internal auditors assess the design and effectiveness of controls to prevent risks from materializing.
* Reasoning:
* Option Ais correct because segregation of duties (ordering, receiving, and paying) is apreventive control, as it prevents a single person from having the authority to initiate, authorize, and complete a transaction, reducing the risk of fraud or errors.
* Option B(Directive) would focus on guiding behavior, such as setting policies or expectations.
* Option C(Detective) refers to controls that identify and detect errors after they occur, such as audits or reviews.

* Impact of Segregation of Duties:
* By ensuring duties are segregated, organizations minimize the risk of fraudulent activities and errors, thus acting as a preventive measure.

NEW QUESTION: 38
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Answer: A (LEAVE A REPLY)
Comprehensive and Detailed Step-by-Step Explanation:
* Reference to IIA Standards:
* Standard 1210 - Proficiency: The internal audit activity must possess or obtain the knowledge, skills, and competencies needed to perform its responsibilities effectively.
* If internal expertise is lacking, external resources or subject matter experts should be engaged.
* Reasoning:
* Option Ais correct because collaborating with an internal expert ensures that the audit is performed competently while addressing the health and safety risks comprehensively.
* Option B(amending the scope) avoids addressing critical risks, which may undermine the value of the audit.
* Option C(relying on management's risk assessment) is inappropriate, as the internal audit function must independently evaluate the area.
* Mitigating Lack of Expertise:
* Leveraging subject matter experts ensures compliance with professional standards and the integrity of the audit process.

NEW QUESTION: 39
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Answer: (SHOW ANSWER)
Comprehensive and Detailed Step-by-Step Explanation:
* Analytical Procedures: Benchmarking compares an organization's performance against internal or external standards, which is a core analytical procedure used to assess efficiency, effectiveness, or best practices.

NEW QUESTION: 40
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Answer: A ([LEAVE A REPLY]())
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.

NEW QUESTION: 41
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Answer: B ([LEAVE A REPLY]())
Comprehensive and Detailed Step-by-Step Explanation:
* Cost-Benefit Analysis: Controls should be cost-effective. Spending significant resources on a process that accounts for less than 1% of the budget indicates that the cost of the control (extensive reviews) outweighs the potential benefits.